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FINANCIAL TIMES

Monday July 20 1992

EUROPE'S BUSINESS NEWSPAPER

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Warrant served on party chief in Milan probe

The investigation into political corruption in Milan took another turn at the weekend with the announcement that Silvio Lega, assistant secretary of the Christian Democratic party, had been served with an arrest warrant.

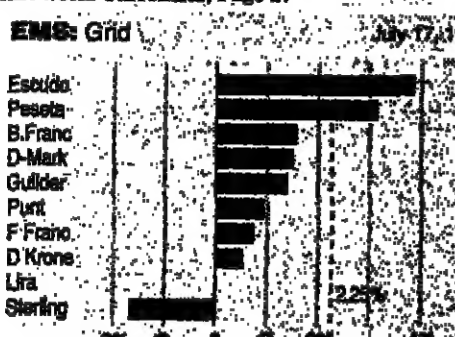
Mr Lega is being canvassed as the most likely successor to Arnaldo Forlani in the key post of Christian Democrat secretary-general. Page 2

Spending curbs likely: The UK cabinet is expected later this week to endorse strong curbs on public spending, which are likely to lead to cuts in investment in housing, roads, the inner cities and other construction projects. Page 10

Bank for sale: The Hong Kong government has put the Overseas Trust Bank up for sale, offering a rare opportunity to buy into the colony's lucrative banking market. Page 13

Peace talks: Mozambique president Joaquim Chissano said he had agreed to meet his main rebel opponent, Afonso Dhlakama, to try to end the country's 16-year-old civil war. Page 2

European Monetary System: Sterling remains at the bottom of the EMS grid after losing more than 2 pence against the D-Mark last week. However, the differential between the pound and the next weakest currency, the Italian lira, is slightly smaller as the Italian currency also suffered big losses in last week's trading. The lira, the Belgian franc and Dutch guilder all start the week relatively stronger, since their respective central banks all tightened policy in the wake of the Bundesbank's 0.75 percentage point rise last week. Currencies. Page 27



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow band. The D-Mark is the base currency at 100. The Peseta is at approximately 166.6, B-Franc at 66.6, Guilder at 33.3, Punt at 200, F-Franc at 6.6, D-Wone at 33.3, and Lira at 2000.

Fears over bid: National anti-trust authorities are concerned that European Commission approval of Nestlé's bid for Perrier, French mineral water group, would set worrying new precedents in EC competition policy. Page 10

Sanyo Electric: is to postpone mass production of four-megabit dynamic random access memories (D-Rams) because of sluggish market conditions, the company announced. Page 13

Go-ahead sought: The world's most nuclear dependent electricity monopoly, Electricité de France, wants government clearance for a new nuclear reactor - a move that could hamper the administration's attempt to court the ecology parties ahead of the general election. Page 3

Spanish cuts: The Spanish government will tomorrow announce a risky fiscal package designed to reduce this year's deficit by \$3.26bn. Page 3

Hanson: Anglo-American conglomerate, said it would consider buying British Coal once any financial information on the privatisation of the coal producer was made available. Page 11

Open Championship triumph for Faldo

Britain's Nick Faldo (left) won the British Open Golf Championship at Muirfield by a stroke from John Cook of the US. Faldo, who has taken the title twice before, started the day with a four shot lead but with two holes to play was two shots off the lead.

Leader's call: John Smith signalled a combative start to his leadership of the UK Labour party when he ordered an all-out assault on the government's failure to deliver economic recovery. Page 5; Beckett may not bridge gender gap. Page 5; Editorial Comment, Page 8

Loan worries: Italy's foreign bankers' association is seeking a meeting with the government to discuss the status of some £3,000m (\$2.7bn) of loans extended to Efim, the state industrial holding ordered to be wound up last week. Page 2

Eurofighter plea: The defence ministers of the four partner countries in the all-British Eurofighter consortium are expected to meet in Madrid on August 4 in an effort to persuade Germany not to pull out of the project. Page 3

Paper Group: carmaking subsidiary of British Aerospace, today opens a £200m (\$300m) manufacturing centre in Oxfordshire - the company's biggest single production investment since privatisation in 1986. Page 10; Sales slump. Page 4

Papal thanks: Pope John Paul II, in his first public statement since he was sent into hospital a week ago for the removal of a benign tumour, thanked his doctors for their surgery and the public for their prayers.

US welcomes move to curb Jewish settlements in occupied territories

Baker optimistic on Middle East talks

By Hugh Carnegie in Jerusalem

MR JAMES BAKER said in Jerusalem last night he was optimistic about progress in Middle East talks and welcomed moves taken by Israeli prime minister Yitzhak Rabin's new government to curb Jewish settlements in the occupied territories.

Speaking after talks with Mr Rabin, the US secretary of state struck an upbeat note which contrasted sharply with the tense relations that marked exchanges between the US and the previous Israeli government, led by Mr Yitzhak Shamir.

Mr Baker signalled a shift in Washington's attitude to Israel's request for \$10bn in US loan guarantees, hitherto blocked because of Mr Shamir's refusal to freeze settlements.

"I share what I believe is your optimism for the opportunity of moving forward in the peace process," he said as he stood alongside Mr Rabin, who has promised to accelerate the US-brokered negotiations begun last October in Madrid.

It is Mr Baker's 10th visit to Israel since the end of the Gulf war and his first since Madrid.

Mr Rabin thanked the US for its readiness to take part in the acceleration of the peace process and "the improvement in relations between the two countries".

In a further move to advance the talks, Mr Rabin is to fly to Cairo tomorrow to meet President Hosni Mubarak, the first meeting since 1986 between the leaders of Israel and Egypt.

Mr Baker will today have further talks with Israeli officials and will meet Palestinian leaders in Jerusalem before travelling to Syria, Jordan, Egypt and Saudi Arabia this week.

At his first cabinet meeting yesterday morning, Mr Rabin's Labour-led government decided to halt the establishment - pending review - of some 10 Jewish settlements in the occupied territories approved by the previous government. Last week, the housing ministry temporarily froze unsigned contracts for new building in existing settlements while a similar review was conducted.

Although he has stopped short of a complete freeze, Mr Rabin hopes substantial moves to curb the expansion of settlements will win the US loan guarantees needed to help Israel finance the absorption of mass migration from the former Soviet Union, and facilitate progress in talks with the Arabs.

Both Washington and the Arabs regard the expansion of Jewish settlements in the occupied territories as an obstacle to peace in the Middle East.

Mr Baker said: "Let me say it will make a big difference, certainly with respect to the views and positions of the US."

He added: "I am quite confident that we will be able to make the point with the Arab countries and Arab representatives that we now have a government here that is serious about limiting this question with regard to the settlements."

However, Mrs Hanan Ashrawi, spokeswoman for the Palestinian peace team that will meet Mr Baker on Monday, said: "We think that all settlements have to stop and are illegal, and if we are to maintain the integrity of the peace process, then all settlement activities must come to a halt."

Mr Baker, whose meeting with Mr Rabin was picketed by right-wing demonstrators opposed to the peace process, spent an hour and a half with Mr Rabin immediately after arriving in Jerusalem.

The Jerusalem meeting was the start of a five-nation trip to revitalise the Middle East talks, which have so far made little progress.

Mr Baker said no date had yet been set for resuming negotiations, but they are expected to be in Rome in September after Mr Rabin has visited President George Bush next month.

"It is important now, we think, that the parties do more than just meet and talk," Mr Baker said on the flight to Israel.

"We would like to see negotiations, when they do resume, to resume as real negotiations with the parties presenting concrete and specific proposals to one another."



James Baker (left) arrives in Jerusalem and is greeted by Israeli premier Yitzhak Rabin

Bush considers changes in re-election campaign

By Jurek Martin in Washington

MR JAMES BAKER, the US secretary of state, has left open the possibility that he will shortly give up his present post to run President George Bush's re-election campaign.

On his way to the Middle East, he repeatedly ducked questions on his next step. Last week, he had spent two days on a private fishing trip with Mr Bush during which the president conceded that the matter was discussed.

Arguments in favour of a reshuffle at the top of the Bush campaign have been reinforced by the surge in support for Mr Bill Clinton, the Democratic party nominee. Mr Clinton's increased support comes after last week's successful convention in New York and the sudden withdrawal of Mr Ross Perot.

Most polls give Mr Clinton a lead of more than 20 points over

Mr Bush. Even though Democrats concede this must be a temporary phenomenon, it was the biggest convention "bounce" that any candidate had received in polling memory.

The polls suggest that Perot supporters find Mr Clinton preferable to Mr Bush at this stage. Both campaigns are wooing them assiduously.

Mr Perot himself complicated matters by suggesting he would try to keep his army of volunteers together to lobby for economic policy changes and to endorse congressional candidates.

Furthermore, there could be no disguising the large and enthusiastic crowds that greeted Mr Clinton and Senator Al Gore, his running mate, on their bus campaign swing in New Jersey and Pennsylvania, the beginning of a 1,000-mile, six-state barnstorming from New York to St Louis through the important rust-belt states.

The immediate Republican response, a clear harbinger of the

Continued on Page 10

Perot refuses to quit political stage. Page 2
Editorial Comment, Page 5

Yugoslav premier moves to bolster ceasefire

By Laura Silber in Belgrade

MR MILAN PANTIC, the new prime minister of Yugoslavia, yesterday flew to Sarajevo, the besieged Bosnian capital, in an attempt to bolster a ceasefire agreement between the warring factions in Bosnia.

Mortar attacks were reported in Sarajevo after the expiry of the 6pm deadline for the ceasefire agreed by the leaders of Muslims, Serbs and Croats, the three main ethnic groups. Bosnian radio also reported renewed clashes around Tuzla and Jajce, north of Sarajevo.

Sarajevo radio said the mortar attacks had pinned down Mr Pantic at the United Nations headquarters after talks with Mr Alija Izetbegovic, the president of Bosnia-Herzegovina.

Mr Pantic offered to start immediate peace talks with Bosnian leaders to end the four-month war in Bosnia-Herzegovina. After almost three hours of talks with Mr Izetbegovic, he said the Yugoslav and Serb side was ready to end "this stupid, unbelievable, unconscionable war".

He said he had given Mr Izetbegovic "a very short time to reply" and that, if he did not agree, the world would know which side wanted to continue the war.

Previous ceasefire agreements have collapsed with each side blaming the other for violations.

Fighting between Serbs and mostly Muslim forces loyal to the Bosnian government, yesterday continued in Gorazde, eastern Bosnia. Radio Sarajevo said civilians and Bosnian forces had suffered heavy casualties in street fighting.

Some 70,000 people are reported to be trapped in Gorazde which for three months has been surrounded by Serb militia and cut off from the outside world.

The ceasefire was intended to last at least 14 days allowing time for all three sides to hand over heavy artillery to UN peacekeepers. It also calls for some 1.2m refugees to be allowed to return home.

UN officials in Sarajevo said

Continued on Page 10

Top anti-Mafia magistrate killed by Palermo car bomb

By Robert Graham in Rome

THE MAFIA yesterday intensified its intimidation campaign directed against the Italian judiciary by assassinating Mr Paolo Borsellino, the most senior magistrate fighting organised crime.

He and five bodyguards were killed by a huge car bomb in Palermo. At least 15 people were injured.

Mr Borsellino was driving in a convoy to visit his mother in the city when the bomb exploded. It had been planted in a Fiat 600 and had a devastating effect, with many injuries caused by shrapnel. Police said more casualties would have occurred had it not been a Sunday afternoon when the city was largely deserted.

The killing was the second time in two months that the Mafia has struck in a spectacular manner against its enemies in the magistrature.

On May 23, Mr Giovanni Falcone, the leading figure behind the judiciary's fight against the power of the Mafia throughout

Foreign banks seek talks on ERM loans. Page 2

Milan corruption probe widens net. Page 2

Italian auction begins. Page 8

the 1980s, was assassinated along with his wife and three bodyguards. A 1,000kg bomb was detonated under his three-car convoy outside Palermo.

Mr Borsellino, who was the late Mr Falcone's closest friend, took up his mantle and was widely seen as the main candidate to become Italy's new "super-magistrate" dealing specifically with organised crime.

The new Amato government had pledged to make the fight against organised crime one of its main priorities but the Mafia struck at a time when the government's attention is focused almost exclusively on dealing with the country's deteriorating public finances. The main political parties have also been rocked by an ever-growing scandal over illicit funding.

Significantly, the Falcone assassination also occurred at a delicate moment when parliament was dithering over who to elect as Italy's next president.

For several days the authorities in Sicily have been in a state of alert over the possibility of an attempt on the life of a prominent public figure.

Mr Borsellino said after the Falcone killing that he was aware he was in the sights of the Mafia. They had never forgiven him, along with Mr Falcone, for initiating the big trials of the 1980s, which for the first time demonstrated through extensive use of "super-grass" testimony that the Mafia was a well-structured organisation of criminal families.

Questions are now bound to be raised about magistrates' security. Although heavily escorted in three armoured-plated cars, the convoy was caught just as it turned into a cul-de-sac where Mr Borsellino's mother and sister lived in an apartment block. Mr Falcone was killed while using a vulnerable autostrada route from Palermo airport.

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NEWS: INTERNATIONAL

Italian government's stance criticised

Foreign banks seek talks on Efim loans

By Robert Graham in Rome

ITALY'S foreign bankers' association (Aibe) is seeking an urgent meeting with the government to discuss the status of some L3,000bn (\$2.7bn) of loans extended to Efim, the state industrial holding group ordered to be wound up last Friday.

A banker heading one syndicate of foreign banks owed money by an Efim subsidiary voiced concern over the lack of consultation with bankers. By the end of the last week, he said, no banks had been "contacted at all by Efim or the Treasury. It is all very unsatisfactory."

According to unofficial versions of a decree to be published today, Efim's debts and those of its 80 subsidiaries, totalling L8,500bn, will be frozen for a maximum of two years. The decree also says the Treasury has the discretion to limit the freeze on debt pay-

ments for individual companies to a period "no greater than 18 months".

Mr Giuliano Amato, prime minister, talked on Friday of the freeze being "no less than one year".

The government has not formally justified the freeze but the group is believed to have negative net worth. Mr Alberto Predieri, the new administrator of Efim, will need time to value the group and determine the fate of its subsidiaries. Mediobanca and Warburg's have been engaged as advisers on the valuations.

Efim's long-awaited liquidation is part of the new Amato government's radical approach to reorganising the Italian public sector.

According to the decree, creditors will be offered in 1993 government paper denominated either in lire or Ecu with a ceiling of L4,000bn. The interest will be determined by the Treasury but the decree says

that, beginning in 1994, the service costs of this paper will be L720bn.

It is understood that at least six syndicated foreign loans - four in Ecu and two in yen - have been extended to Efim and its subsidiaries. Japanese institutions, including Mitsubishi Bank, are believed to be among the most exposed. However, Chemical Bank recently organised a private \$300m (\$157m) placement.

Foreign bankers are still angry about the collapse last year of Federconsorzi, an agricultural co-operative with indirect government backing. "They frankly have to get this one right otherwise Italy will be no better than an Argentina or a Brazil," a banker said.

The administrator has 90 days in which to prepare a report on how the group is to be liquidated.

The main loss-making sectors are aluminium (Alumix) and glass (Siv).

Perot refuses to quit US political stage

ROSS PEROT may no longer be running for president but the Texas billionaire still seems to think he can influence the course of US politics this year.

Over the weekend several dozen of the state co-ordinators of his non-candidacy gathered in Dallas to discuss the next steps with Mr Perot. Some attempts were apparently made to persuade him to reconsider and, having failed, yesterday's deliberations focused on some unscripted ideas Mr Perot had tossed off in two bizarre television interviews on Friday night.

These came only a day after the formal ending of his undeclared candidacy. In them he called on his "volunteers" to form "an army of patriots" to put pressure on Democratic and Republican candidates running for president and Congress.

"This is a much bigger, bolder step," he said. "What we're laying out tonight is a plan to have the House, Senate and the White House march in step, fix the economy and put America back to work."

Sounding more like a candidate himself, he said he would not withdraw his name from the 24 state presidential ballots on which he is already registered, nor discourage the ending of incomplete petition drives. Simultaneously he insisted repeatedly that he was no longer running.

He again promised to publish soon an economic policy plan, the absence of which was considered one of several fatal flaws when he still had his eyes set on the White House.

This plan, according to his few surviving political aides, would include \$500bn in budget savings over five years, achievable through a 10 per cent reduction in the federal bureaucracy, the elimination of many subsidies, higher income and social security taxes on the wealthy, and increases in petrol taxes.

The weekend meeting in Dal-

las was called before he spoke on television on Friday night. Some attending said Mr Perot had promised financial assistance to the continuing effort, but others reported that his commitment was vague.

Most of his remarks were broadcast on the Larry King Live programme on Cable News Network, the vehicle he had used to launch his efforts earlier in the year.

Mr Perot seemed positively liberated to be talking to his friendly host, free from the presence of hostile journalists and the professional political advisers he had imported and then mostly ignored.

Two of them - Mr Ed Rollins and Mr Hamilton Jordan - have begun to paint a picture of an extraordinarily disorganised and amateur effort, in which all decisions were taken or ducked by Mr Perot alone.

Mr Perot, they said, only seemed comfortable on talk shows and in rallies surrounded by his faithful. They warned him that this was an illusion and that other fringe candidates - for instance, the Rev Pat Robertson four years ago - also drew large crowds at the outset. But Mr Perot resisted all attempts to have his image and arguments professionally burnished.

Mr King, the most prominent and different effort. One of them was the entertainer Cher, who said she would stay involved "as long as I know you won't quit".

The campaigns of President George Bush and Mr Bill Clinton, the Democratic nominee who has surged ahead in the polls, were still wooing Perot



Ross Perot: resisted all attempts to have his image and arguments burnished

The Texas billionaire is determined to influence events ahead of presidential elections, writes Jurek Martin

of the talk show hosts, seemed almost distressed that Mr Perot had withdrawn and on several occasions virtually begged him to reconsider. It may or may not be relevant that Mr Perot's frequent appearances have done wonders for the show's ratings.

Several callers, however, expressed their disappointment and sense of betrayal that he had backed out, though others were wide-eyed with enthusiasm at the prospect of a new

supporters furiously over the weekend.

Even Mr Dan Quayle, the vice-president who a month ago was calling Mr Perot "a temperamental tycoon with contempt for the constitution", had only kind words to say.

Both are operating on the assumption that, no matter what he says to his faithful flock, Mr Perot cannot come back. There is no recent record of this happening in the space of an election year. Senator

debt, Mr Perot has at least lent his name, though typically not the responsibility, for his actions, to a cause which has other powerful advocates.

Senators Warren Rudman and John Danforth, both Republicans, and Mr Teagles on the Democratic side are continuing to exert pressure on Mr Bush and Mr Clinton, to be more specific about their deficit reduction ideas. Both candidates may face a decisive televised debate devoted to this

issue, at least if Mr Danforth has his way. But Mr Perot's commitment to this cause must remain suspect for the simple reason that he refused to let it be published while he was still an official, if undeclared, candidate. He had promised early in May that it would be ready in 60 days, but when he quit in the third week of July its contents were still unknown.

It seems as though he had worked out it would be so unpopular as to damage fatally his chances, which were already beginning to dwindle.

Mr Jordan admitted it would have created "a firestorm" when made public, probably consuming in the process Mr Perot.

He pre-empted that probability by withdrawing, which lessens the realistic chances of his "army of patriots" being more than a marginal force in the remaining three and a half months of the campaign.

Milan probe widens net

By Robert Graham

THE investigation into political corruption in Milan took another turn at the weekend with the announcement that Mr Silvio Lega, assistant secretary of the Christian Democrat party, had been served with an advisory warrant.

Mr Lega, 47, is being canvassed as the most likely successor to Mr Arnaldo Forlani in the key post of Christian Democrat secretary-general. Mr Forlani resigned last month after failing to obtain sufficient support for his attempts to become Italian president.

Mr Lega, a deputy from Turin, has been seen as having the necessary youth and dynamism to revive the party's fortunes after its share of the vote fell to 29 per cent in April's general elections.

He is being investigated for alleged illicit financing of polit-

ical parties, along with fellow deputy Bruno Tabacchi, former Christian Democrat president of the Lombardy region. Both said they had nothing to hide.

Their alleged involvement brings to almost 70 the number of politicians, local and national, connected by Milan magistrates to a sophisticated system of rigged contracts and political kick-backs.

Mr Salvatore Ligresti, Milan's construction supremo, was arrested last week for alleged payment of bribes to secure public works contracts.

The next step in Mr Lega's case will be a request to have his parliamentary immunity waived. This has already happened in the case of five deputies linked to the Milan affair.

The most damaging aspect of Mr Lega's alleged involvement is the nature of the accusations. Mr Maurizio Prada, a senior Christian Democrat poli-

tician in Milan arrested earlier in the magistrates' inquiries, has alleged that some of the money he collected through bribes and contract commissions were handed over to the national party.

Christian Democrat officials maintained over the weekend that Mr Prada was spitefully incriminating others after his recent expulsion from the party.

But such accusations and counter-charges will affect the forthcoming election of a new party secretary.

The Milan corruption scandal also promises further developments on the contractors' side. Mr Ligresti is said to be co-operating with the investigation and for the first time since his arrest two months ago Mr Enzo Papi, the managing director of Cogefar-Imiprest, Fiat's construction group, is beginning to talk.

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NEWS IN BRIEF

Mozambique leader to meet rebel chief

MOZAMBICAN President Joaquim Chissano said yesterday he had agreed to meet his main rebel opponent, Mr Afonso Dhlakama, for the first time to try to end the country's 16-year-old civil war, Reuters reports from Harare.

Mr Chissano, speaking after a four-hour discussion on the Mozambican war with his Zimbabwean counterpart, Mr Robert Mugabe, said the talks would be held soon, but details were still being worked out.

Rebels of the Mozambique National Resistance (MNR), seeking general elections and power-sharing with the Maputo government, have fought a bloody war in which at least a million people have been killed. Tens of thousands more have fled into neighbouring countries to become refugees.

Jordan defuses US rift

King Hussein of Jordan has defused a serious rift with the US over sanctions-busting by tightening customs checks along his kingdom's border with Iraq, officials and diplomats said, Reuters reports from Amman.

The clampdown, some say, may even encourage Washington to resume military aid frozen because of Jordanian sympathy for Iraq during the Gulf crisis.

Jordan has been Baghdad's main supply line since the UN Security Council slapped on a trade blockade after Iraq invaded Kuwait in August 1990.

Romania's ex-king nominated

One of Romania's leading political parties has nominated Michael of Hohenzollern, the former king, as its candidate for president in elections due on September 27, Virginia Marsh writes from Bucharest.

Mr Radu Ciampanga, leader of the National Liberal party (NLP), said the party was nominating the former king because he was the only person capable of beating President Ion Iliescu, who is standing for a second term.

A delegation would this week visit Switzerland, where ex-King Michael, 70, has lived for more than 30 years, to ask him formally to be the NLP candidate.

Inkatha calls for defiance of ANC over 'mass action'

By Michael Holman in Johannesburg

THE Inkatha Freedom party (IFP) yesterday called on its members to defy an African National Congress (ANC) call for "mass action" against the government of President FW de Klerk. In a move likely to reinforce the already bitter rivalry between the two parties, Chief Mangosuthu Buthe's mainly Zulu backed movement said its supporters should "exercise the right to work" and urged employers "not to close their businesses during any mass action campaign".

A resolution passed at the IFP annual conference this weekend said the party was "appalled that the ANC and its

allies are planning protest action which includes marches, strikes and stay-aways which will cripple the economy at the time we most need to build it up to provide the wealth the first government after apartheid will need to make democracy work."

Among other measures, the ANC and trade union allies have called for a general strike to begin on August 3, marking the start of a week of disruption.

Employers' representatives and union officials are close to agreement on a compromise in which business and unions make a joint appeal for an end to the political stalemate. Normal economic activity would be suspended on August 3 but business would continue as

Global battle with Aids 'at impasse'

By Clive Cookson in Amsterdam

THE worldwide Aids epidemic is racing ahead while the international response has stalled, 11,000 delegates to the seventh world conference on the disease heard last night.

Dr Jonathan Mann, conference chairman, told the opening session of the week-long meeting in Amsterdam: "The global effort against Aids has reached a dangerous impasse."

A realistic analysis reveals that the gap between the expanding epidemic and lagging national and international response is growing rapidly, leaving the world more vulnerable to the spread of Aids."

The Harvard Aids Institute in the US, which Dr Mann directs, has just completed an independent analysis of the epidemic. It predicts that the number of people infected with HIV, the virus that causes Aids, will rise from about 13m now to 50m by 1996 and somewhere between 50m and 150m - including more than 10m children - in the year 2000.

The latest official prediction from the World Health Organization is only slightly less alarming: it predicts that 30m to 40m men, women and children will have been infected by the turn of the century. About 60 per cent of the adults are expected to develop full-scale

Aids within 12 years of infection.

As Dr Joost Ruitenberg, conference co-chairman, noted: "The developing world is increasingly bearing the burden of the HIV/Aids pandemic, accounting for approximately 80 per cent of the world's HIV infections."

The virus is racing through Asia. Dr Max Essex, of the Harvard School of Public Health, who is chairing the conference's scientific programme, said the fastest heterosexual spread seemed to be in northern Thailand - perhaps because a new and virulent HIV strain had evolved there.

No one is expecting any dramatic scientific or medical breakthroughs to be announced in Amsterdam this week, although with more than 900 speakers scheduled for conference sessions there is bound to be some progress.

One area where hopes are relatively high is vaccine development: 15 HIV vaccines are currently undergoing early clinical trials in human volunteers. Looking further ahead, the meeting heard of long-term research into "gene therapy" - using a genetic approach to attack HIV.

The conference is also to put greater emphasis on social approaches to the disease. Wellcome expects good news, Page 11

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Published by The Financial Times
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Financial Times (Scandinavia)
Finansialtidningen A.S. DK-1164
Copenhagen S. Denmark. Telephone
(03) 12 44 41. Fax (03) 955535.

EFA defence chiefs set for Madrid talks

By Quentin Peel in Bonn

THE DEFENCE ministers of the four partner countries in the ailing Eurofighter consortium are expected to meet in Madrid on August 4, in an effort to persuade Germany not to pull out of the project, according to industry officials.

Proposals for going ahead with a substantially cheaper version of the aircraft - at least as far as Germany is concerned - are likely to be discussed.

Britain, Italy and Spain remain committed to the Eurofighter project, although all three defence ministers, who met in London last week, agreed they would also like to see significant savings.

Spain is understood to be sympathetic to the German position. Mr Volker Rühe, the German defence minister, says he wants to see an entirely different aircraft developed, more appropriate to the post-cold-war security threat in the year 2000, if possible using the development funds committed to the EFA. Germany has so far spent some DM2bn (£1bn) out of total development funds allocated by Bonn of nearly DM6bn.

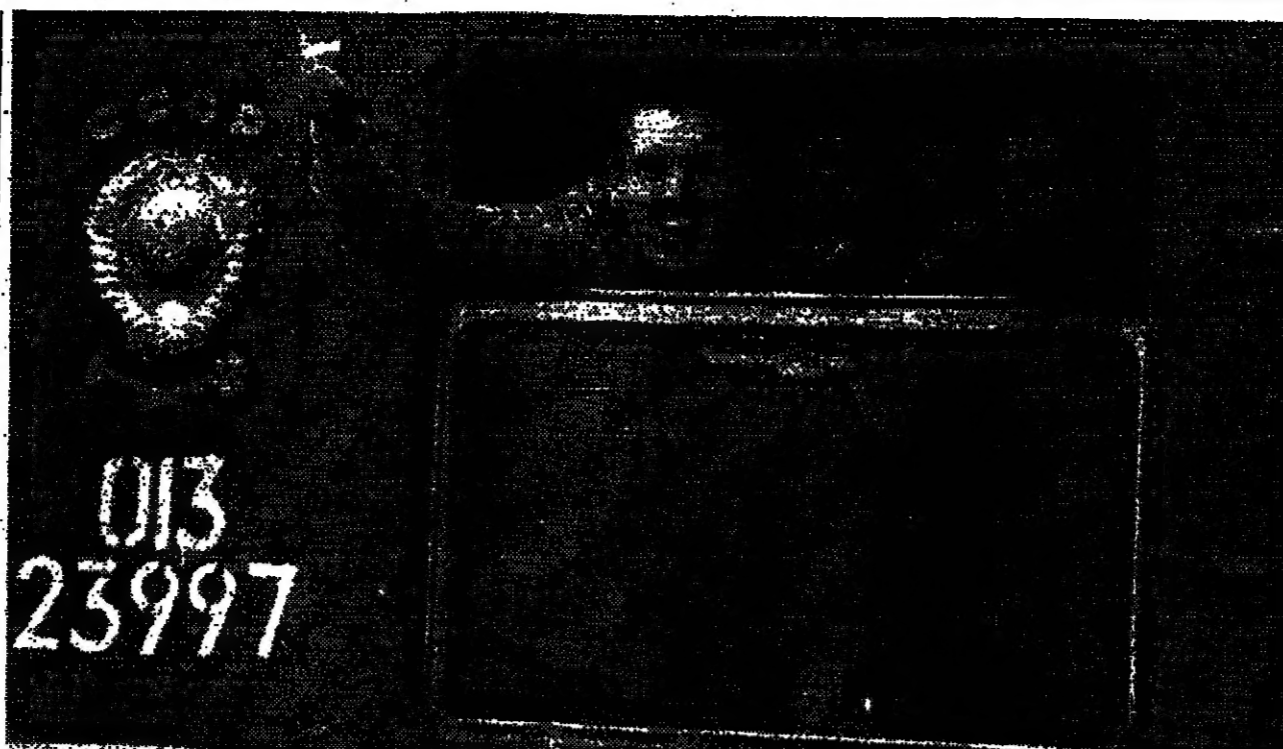
Industry and defence ministry experts in the management

agency with overall responsibility for the Eurofighter met in Munich last Thursday to discuss the state of the aircraft development programme, in the light of Germany's decision not to go ahead with full-scale production from 1993.

According to a report in the Welt am Sonntag Sunday newspaper in Germany, they agreed that it would be possible to reduce the "lifetime cost" of the aircraft by 25 per cent - from the current estimate of DM13.4m per aircraft, to just DM9.8m. This would be managed primarily by not installing some of the more sophisticated items and software.

Although the details of the newspaper report could not be confirmed, the German defence ministry said a regular meeting of the Eurofighter management agency had taken place. However, it was a routine meeting without any special items on the agenda.

He confirmed that Mr Rühe was going to Madrid on August 4, but the purpose of the visit was to meet his Spanish counterpart, Mr Julian Garcia Vargas, for a first bilateral exchange since he (Mr Rühe) took office. It would be a brief visit but, if the other defence ministers were invited, he was happy to meet them.



THE HOME RUN: Young CIS soldiers join the east German exodus as they leave Dresden-Neustadt station for Russia yesterday

EDF seeks go-ahead for reactor order

By William Dawkins

THE world's most nuclear-dependent electricity monopoly, Electricité de France (EDF), has asked the French government for clearance to order its first new nuclear reactor for five years.

This could hamper the Socialist administration's attempt to court France's influential ecology parties in the run-up to the general election next March, which polls suggest the socialists will lose.

The moderate Génération Ecologie wants a freeze on nuclear power, while the Verts, or Greens, want to ban it. Between them they won nearly 14 per cent of the

vote in last March's regional elections.

The government will therefore be under pressure to put off a decision until after the general election.

However the EDF says it must order a new reactor early next year to cope with an expected 2.1 per cent mean annual growth in electricity demand.

Accord heads off crisis in pay for French jobless

By William Dawkins in Paris

FRANCE'S unemployment pay system was temporarily rescued from impending bankruptcy over the weekend by a hard-fought accord between French employers and a majority of trade unions.

The Patronat employers' organisation and three of France's five main trade unions agreed to raise contributions to Unedic, the unemployment pay body, by a shared 0.8 per cent, and reduce payouts to those out of work for more than four months.

Payments from Unedic, which is funded entirely by companies and their employees, would have dried up from October without the accord, which runs until the end of next year. The deal will save FF25bn (£2.56bn) by then, easily clearing Unedic's more than FF15bn deficit, said negotiators.

The Communist-led CGT, France's largest trade union, refused to sign the deal on the grounds that workers and the unemployed were being asked to shoulder too much of the cost of the rescue. The FO

union, which founded Unedic with the employers in 1958, reserved judgment for the same reason.

Despite the union split, the compromise deal is binding. The fruit of more than a month's negotiations, it culminated in an all-night bargaining session ending on Saturday morning.

The talks have been followed closely by the government, which is powerless to intervene directly but eager to avoid worsening the plight of France's nearly 3m unemployed.

The rise in contributions will be split equally, 0.4 per cent each way, between employers and workers.

The 0.8 rise lasts until the end of the year, when the extra payment reduces to 0.5 per cent for the following six months and then falls again to 0.4 per cent until the end of December 1993, by when employers and unions will review the deal.

From August, individual payouts will drop by 17 per cent from the fourth month out of work and again every subsequent four months.

Spain acts to halt runaway deficit

By Peter Bruce in Madrid

THE SPANISH government will tomorrow attempt to bring its runaway public finances under control by announcing a risky fiscal package designed to cut this year's deficit by \$3.28bn (£1.7bn).

The Finance Ministry, which has admitted it has badly miscalculated the effect the slowdown in the economy would have on tax revenues, is expected to announce an immediate increase in the top rate of value added tax from 13 per cent to 15 per cent, an increase in the tax on personal incomes, and spending cuts expected to affect most ministries.

Such an increase in VAT, six months before Spain would have been obliged to introduce it under European Community tax harmonisation agreements, will increase revenues for the rest of this year by about \$900m. The government is hoping to take in an extra \$400m by withholding more tax. Madrid had been forecasting revenues

of \$128bn in 1992 but had reached only \$34bn by the end of June.

It has struggled also to find budget cuts of around \$1.9bn for the rest of this year - with roughly 80 per cent of government spending already committed. This compares with the \$3.5bn it was forced to cut this time last year when faced with a similar crisis. Now, though, the government has come under pressure from the ruling socialists not to cut social spending as a general election must be held by October 1993 at the latest.

The budget deficit in the first six months of 1992 was more than 40 per cent over target, making it impossible to lower the deficit from 4.4 per cent of gross domestic product last year to 2.5 per cent as pledged in plans presented to the EC. The measures to be announced tomorrow will attempt to re-establish that target, although a VAT increase is likely to damage efforts to end the year with inflation of below 6 per cent.

Bonn crusader shares vision of circular rubbish

GERMANY'S messianic environment minister, Mr Klaus Töpfer, has a way with words. In his book, rubbish is not garbage: it is a secondary raw material. In his mind's eye he sees product cycles not as lines littered with ups and downs, but as near-perfect circles.

This vision lies at the heart of his latest offering, tabled at the weekend. His "circulation economy law", he said, "will bring about a change in the behaviour of manufacturers, distributors and consumers" and spell the end for "ecological subsidies in our way of life".

The aim of the new law - in reality a top-to-bottom amendment of existing legislation on the handling and treatment of rubbish - is to force manufacturers and distributors of all goods to take their products back at the end of their useful life.

They must then either be reused, recycled or burnt in power plant. Only those remnants with no possible use may be classed as "rubbish" and dumped in the traditional way.

The costs of collection and reprocessing should be included in the selling price, but must not exceed existing public authority charges for waste handling and disposal, he said. Transformation of today's throwaway society into the circulation economy would take 10 years or more.

Part new, part recycled, Mr Töpfer's initiative is a logical, if dramatic new chapter in a long-running series of environmental strictures from the

Environment Ministry.

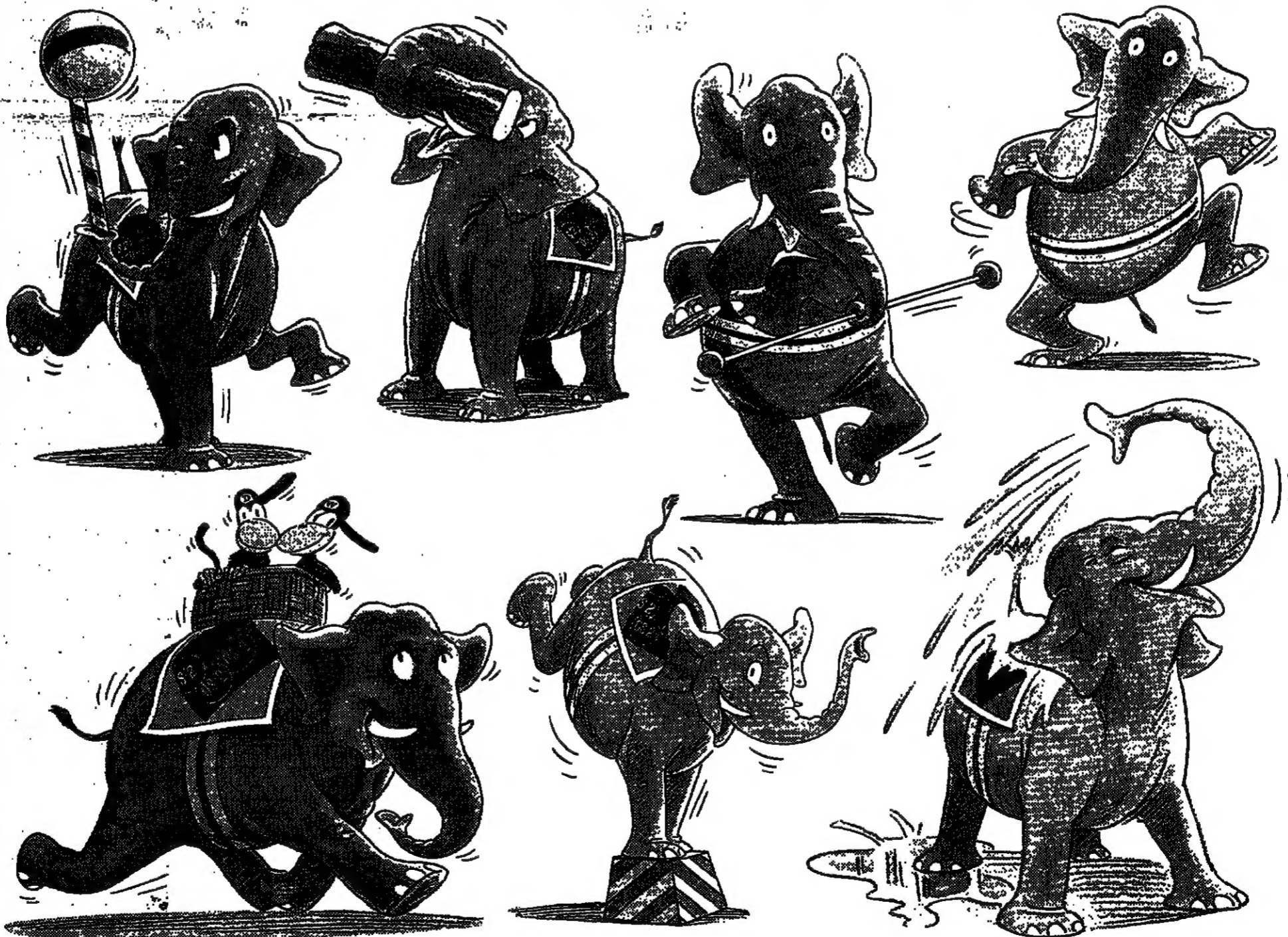
Since December 1 last year, transport packaging of all goods has routinely been taken back for recycling. Since April, German shops have been kitted out with bins to collect outer-packs from self-service goods: items such as toothpaste boxes.

From January 1 next year consumers will be able to drop off the toothpaste tube and other sales packs - cigarette boxes, yoghurt pots - on their shopping trips, and a 50 pfennig charge becomes payable on drinks cans.

Christopher Parkes explores a dramatic new chapter in Germany's environment laws

Virtually all supermarket goods are marked with a green spot, the sign that a levy has been paid to Duales System Deutschland (DSD), a joint company set up by industry and retailers, to pay for collection and recycling through private channels working in parallel with but independently of the public waste network.

Half the packaging industry's 600,000-tonne annual demand for tinplate is recycled. By 1995 DSD says, the proportion will be 72 per cent. Or, in Mr Töpfer's language, the circle will be 72 per cent complete.



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NEWS: INTERNATIONAL

Militants vow defiance at temple site

By Shiraz Sidha in New Delhi

HINDU militants in Ayodhya yesterday declared war on the Uttar Pradesh state government, escalating construction of a temple at the disputed site as all-party talks in New Delhi failed to reach a political consensus on the issue.

After 14 hours of talks on Saturday an all-party meeting in Delhi failed to resolve a dispute over building a temple to Lord Rama on a site where a 16th-century mosque now stands.

A court in the north Indian state of Uttar Pradesh last week ordered a halt to the building of the temple, which has ignited bloody religious riots over the past three years and has been a bone of contention for decades.

But Hindu leaders on Saturday rejected attempts by local authorities to get them to abandon the building work.

Hundreds of supporters of the Vishwa Hindu Parishad (VHP), the militant wing of the

Hindu revivalist Bharatiya Janata Party (BJP), defied the district magistrate's attempts to implement court orders which prohibited all building activity on the disputed site.

"We will not allow the work to be stopped, and if necessary, we will face bullets," said VHP general secretary Ashok Singh after meeting a district magistrate.

Prime Minister Narasimha Rao told the meeting in Delhi that if the state government continued to be blocked in its attempts to enforce the court orders it would amount to "a breakdown of the constitution".

Mr Rao has been under pressure within his minority Congress party government to invoke a provision allowing the central government to dismiss a state government for law and order reasons.

The Uttar Pradesh government is ruled by the BJP, chief rival to the Congress party, which came to power last year on the strength of a campaign to build the temple.



North Korean deputy premier Kim Dai-hyon arrives at Panmunjom in South Korea for the highest-level economic exchange between Seoul and Pyongyang since Korea was divided in 1945

Asean talks will take up disputes over islands

By Jose Galang in Manila

FOREIGN ministers of the Association of South-East Asian Nations (Asean) converge in Manila today for discussions this week on concrete programmes to expand regional co-operation.

The meeting takes place against a backdrop of the continuing territorial disputes involving three Asean members - China, Vietnam and Taiwan - over the Spratly Islands in the South China Sea, a quarrel which could deteriorate shortly with the expected start of oil exploration in the area.

The foreign ministers' gathering is their first since the January accord among the six Asean governments - Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei - to transform the region into a free-trade area by 2007.

They will discuss ways to strengthen Asean's ability to cope with a changing international environment and then discuss trends in trade, investment and development with counterparts from their main economic partners: the EC, US, Canada, Japan, South Korea, Australia and New Zealand.

Mr Raul Manglapus, chairman of the Asean Standing Committee and Philippines Foreign Affairs Secretary, said yesterday that the Spratly disputes will also be discussed.

The three Asean members involved - Brunei, Malaysia and the Philippines - and China, Vietnam and Taiwan all have claims on the islands. With the exception of Brunei, all also have troops on some of the islands, under which may lie oil and gas reserves.

China and Vietnam have awarded contracts separately to western companies to drill for oil in the disputed territories, and Vietnam recently increased its campaign by wading Malaysia to participate in one exploration venture.

Over the past few weeks, China is said to have planted a territorial marker on a reef and had earlier authorised its army to use force, if necessary, to control the islands.

Nevertheless, Qian Qichen, China's foreign minister, has been invited to the Manila meetings and is expected to hold talks with his Asean counterparts as a group and individually.

Mr Manglapus said this week's meetings will tackle "some guidelines [that] will provide us with the start of a kind of modus vivendi between contending nations before a final resolution is arrived at". And, while analysts are not optimistic that a definitive end to the disputes can be reached this week, Mr Manglapus noted "a strong feeling on the part of our partners [for] a peaceful solution".

EC cartel probe and over-supply dog PVC makers



THESE ARE tricky times for west European manufacturers of PVC. Their latest problems began at 9.30am on Tuesday July 7 when European Commission officials raided the Newton-Aycliffe offices of Hydro Polymers, a PVC subsidiary of Norsk Hydro.

Over the next two days, started executives in eight other companies faced questioning from the Commission trustees. The raids signalled a new investigation into alleged price-fixing in the DM\$bn-a-year European market for PVC, the plastic widely used in the construction industry and in packaging.

But if PVC manufacturers are fixing prices, they are doing it badly. Prices are depressed by poor demand and rising imports. All suppliers are suffering heavy losses.

The companies raided this month were BASF, Huls, Hoechst, Wacker Chemie, Atchem, Shell, Eimberg Vinyl Maatschappij, Norsk Hydro, Solvay, Cires and EVC, a joint venture between ICI and

Elfchem. Some were among the 23 plastic groups fined Ecu\$ (€42.4m) by the Commission in 1989 for price-fixing in the early 1980s. The decision was overturned by the European Court of First Instance in March for procedural reasons.

The raids followed complaints by UK customers of rises of some 30 per cent in February and March. A similar rise was achieved by German manufacturers in January.

Commission officials must decide whether the rises were because of a tightening market or an orchestrated effort by PVC makers to raise prices.

The industry certainly needed price rises if they were to stem losses. In Germany, Europe's largest market, the price of high-quality PVC slumped last year from about DM175 to DM140, according to Mr Denis Gattfield, managing director of Hydro Polymers.

The industry reckons it needs prices of DM145 to break even. "In periods of over-supply we get screwed," says Mr Gattfield. "We were in a period of over-supply."

Demand for PVC last year was about 5.3m tonnes, down about 4 per cent on 1990, according to Mr Erich Schnitzler, executive vice-president of PVC at Hoechst. The fall in demand was aggravated by rising imports, which have now reached about 13 per cent of the west European market.

Imports were about 515,000 tonnes in 1990 and could be as high as 700,000 tonnes this year, according to Mr Jacques Stevens, manager responsible

for PVC at Solvay. The US remained a significant importer last year, and countries such as Mexico, Brazil and Libya all increased production. But it is increasingly aggressive eastern European manufacturers that now provide more than half of all imports into the EC.

Mr Stevens explains: "Imports from the eastern countries are a long way from being cost-competitive. There's no demand locally and they need hard currency desperately. That affects prices."

Although UK and Scandinavian markets are depressed, German demand is buoyant, growing at about 5 per cent. Growth in France and Italy is also strong at about 4 per cent. The problem of US imports has also eased, according to Mr

Without further price rises or rationalisation, the outlook for PVC manufacturers is bleak, writes Paul Abrahams

Stevens. With US domestic demand stronger than last year, products previously exported have been diverted to the home market.

Nevertheless, margins remain poor, according to Mr Robert Genin, marketing director of polyolefins and PVC at BASF. "Actually, to tell the truth, margins are lousy. This is still a non-profitable sector. We need another 15 pence to be profitable."

Demand for new PVC could fall as more is recycled. Moreover, although European supply is static, two large US manufacturers, Shintech, a subsidiary of the Japanese group Shin-Etsu, and Georgia Gulf, are considering new capacity. Mr Schnitzler at Hoechst fears that, if the US market slows and the dollar continues to weaken, there could be US dumping into Europe.

He believes that the European market will grow at only 0.5 per cent a year over the next five years. Others are more optimistic. Mr Genin at BASF and Mr Stevens at Solvay reckon that the market could grow at between 1.5 to 2 per cent a year.

"If this sort of unprofitability continues, we can expect some changes in ownership and some plant closures," says Mr Gattfield at Hydro Polymers.

The industry needs rationalisation or further price rises. Otherwise, even without the Commission's attention, the outlook for PVC manufacturers will remain bleak.

New car sales in west Europe fall by 5.3%

By Kevin Dene, Motor Industry Correspondent

NEW car sales in west Europe fell by 5.3 per cent in June to 1.13m from 1.19m a year ago, according to industry estimates.

Demand weakened in Germany and in many of the small and medium-sized European markets. New car sales in June were lower than a year ago in 11 of 17 markets across west Europe.

The decline in June accelerated the downward trend that began in March. Sales have been lower than a year ago in three of the last four months.

New car sales in the first six months of the year fell by 1 per cent to 7.34m from 7.42m in the same period a year ago, according to industry estimates. Sales were lower than a year ago in 8 of 17 west European markets including Germany and the UK.

The significant fall in sales in June was caused most importantly by an estimated 17.4 per cent drop in demand in Germany to 356,000.

New car sales in Germany are retreating from the record levels achieved a year ago in the wake of unification.

The sharp fall in sales in Germany, the biggest single European new car market, was exacerbated by the declining demand in most small and medium-sized European markets in June, led by a sharp

22.5 per cent drop in sales in Finland.

These declines could not be compensated by the continuing strength of demand last month in Italy and Spain, where new car sales were 9.6 and 13.4 per cent higher respectively than a year ago, nor by a rebound in sales in France where new car registrations rose by 7.7 per cent year-on-year.

The fragile recovery in new car demand in the UK continued last month with a rise of 4.4 per cent, but in the first six months sales were still 4.1 per cent lower than the very depressed level of a year ago.

Japanese car sales in west Europe fell by 5.7 per cent in the first half of the year.

Japanese car makers have been hit by the changing pattern of new car sales across Europe and the relatively higher decline in demand in the unprotected European markets where they have their main strength, most importantly in Germany. Demand has grown most strongly this year in the protected markets of Italy and Spain, where Japanese car makers have only a small share.

The Volkswagen group of Germany, which includes Audi, Seat and Skoda, has established a record lead in the first six months.

It boosted its share of west European new car sales to 17.7 per cent from 16.8 per cent a year ago, thanks most impor-

tantly to the success of its Audi and SEAT marques. Sales of its up-market Audi brand rose by an estimated 12.7 per cent in the first six months narrowly outstripping both BMW and Mercedes-Benz, while sales by SEAT, the VW group's Spanish subsidiary, were 14.6 per cent higher than a year ago.

Skoda, the Czechoslovak car maker where VW has management control, fared less favourably with sales in west Europe falling by 6.3 per cent. Sales of the VW brand rose by an estimated 1.9 per cent helped by growing output of the new generation VW Golf, Europe's best selling car.

Among the big six volume car makers in Europe Fiat of Italy and Ford of the US have lost most ground with declines of 8.2 and 6.1 per cent respectively.

BMW, the German executive and luxury car maker, has made some of the biggest gains.

The company increased its sales by 13.3 per cent in the first six months and for the first time in its history has outsold Mercedes-Benz in west Europe in the first six months.

The main loser among European car makers is Rover, the subsidiary of British Aerospace, whose sales in west Europe plunged by 16.4 per cent in the first half of the year to 165,000, depressing its market share to only 2.1 per cent.

WEST EUROPEAN NEW CAR REGISTRATIONS

January-June 1992

	Volume (Units)	Volume Change (%)	Share Jan-Jun 92	Share Jan-Jun 91
TOTAL MARKET	7,345,000	-1.0	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi, SEAT & Skoda)	1,301,000	+4.8	17.7	16.8
Fiat (incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	918,000	-6.2	12.5	13.2
General Motors (Opel/Vauxhall, US & Saab)	907,000	-3.8	12.3	12.7
Nissan	867,000	-3.4	11.8	12.1
Peugeot (incl. Citroen)	29,000	+1.5	0.4	0.4
Ford (Europe, US & Jaguar)	871,000	+4.7	11.9	11.2
Renault	844,000	-8.1	11.5	12.1
BMW	688,000	-8.0	9.4	12.0
Mercedes-Benz	600,000	-17.2	8.2	9.1
Volvo	781,000	+3.8	10.6	9.9
Seat	237,000	+13.3	3.2	2.8
Skoda	231,000	-8.5	3.1	3.3
Toyota	170,000	-12.7	2.3	2.6
Rover	165,000	-16.4	2.2	2.5
Subaru	149,000	-7.6	2.0	2.2
Volvo	115,000	+2.9	1.6	1.5
Honda	94,000	+3.8	1.3	1.2
Mitsubishi	91,000	-14.2	1.2	1.4
Other Japanese	889,000	-5.7	11.7	12.3

Figures reported from US and sold in western Europe. *VW holds 21 per cent and management control of Seat Automobile. **Daimler-Benz 50 per cent and management control of Saab Automobile. †Renault and Volvo are linked through minority cross-shareholding. Source: Industry estimates

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES					JAPAN					GERMANY					FRANCE					ITALY					UNITED KINGDOM				
	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)	Narrow Money (%)	Broad Money (%)	Short Term Rate (%)	Long Term Rate (%)	Equity Yield (%)
1985	9.0	8.1	8.00	10.58	n.a.	5.0	8.4	6.82	6.51	n.a.	4.4	5.1	5.45	6.94	n.a.	6.2	7.4	10.03	11.74	n.a.	13.7	14.0	14.34	15.71	n.a.	4.7	13.2	12.32	11.03	n.a.
1986	13.5	8.3	8.49	7.87	3.43	8.9	8.7	5.12	5.35	0.84	4.6	8.3	4.84	6.94	1.79	6.9	8.8	7.78	8.74	2.85	10.4	8.0	13.25	11.47	1.41	4.0	15.3	11.02	9.97	4.35
1987	11.6	8.5	9.52	6.39	3.12	10.5	10.4	4.18	4.94	0.55	5.0	7.3	4.03	6.14	2.21	4.1	10.0	8.26	9.48	2.75	10.5	11.0	11.32	10.84	1.94	4.7	14.6	9.77	9.52	3.60
1988	4.3	5.4	7.85	8.84	3.61	8.4	11.2	4.42	4.77	0.54	6.8	6.4	4.34	5.49	2.81	4.0	8.5	7.94	9.08	3.69	7.5	8.1	11.24	10.54	2.71	8.8	17.0	10.41	9.89	4.48
1989	0.9	3.6	7.85	8.49	3.43	4.1	9.9	5.31	5.22	0.48	6.3	5.7	7.11	6.94	2.22	6.0	9.5	8.39	8.79	2.86	6.0	8.1	10.41	11.61	2.49	5.9	16.2	14.62	11.83	4.88
1990	3.7	5.4	8.06	8.54	3.80	2.8	11.7	7.82	8.91	0.85	4.5	4.3	8.49	8.71	2.11	3.8	9.0	10.32	9.92	3.18	11.8	8.0	11.98	11.87	2.84	5.4	17.7	13.86	10.30	4.96
1991	6.0	3.2	8.87	7.85	3.21	2.6	3.6	7.81	6.37	0.75	5.2	5.8	8.25	8.44	2.38	-4.5	2.7	9.82	9.03	3.58	7.3	8.0	11.83	13.20	3.46	2.4	8.3	11.58	10.04	4.87
3rd qtr. 1991	6.1	2.8	5.79	7.85	3.10	6.6	2.8	7.21	6.44	0.76	5.3	5.8	8.24	8.52	2.31	-2.1	5.4	9.54	9.05	3.60	7.0	7.7	11.90	12.39	3.31	2.0	7.2	10.82	9.77	4.80
4th qtr. 1991	8.0	2.8	5.90	7.34	3.09	8.5	2.2	6.11	5.88	0.76	4.2	5.8	8.47	8.29	2.46	-4.6	2.7	9.66	8.80	3.61	8.0	8.3	11.84	12.92	3.88	2.8	6.2	10.81	9.72	5.08
1st qtr. 1992	11.0	2.9	4.17	7.29	2.99	7.5	1.7	5.01	5.49	0.88	4.3	5.8	8.62	7.81	2.31	-1.9	3.5	10.05	8.48	3.40	8.8	8.1	12.04	12.85	3.40	2.2	6.0	10.81	9.60	5.00
2nd qtr. 1992	11.7	1.9	3.95	7.37	2.97	6.0	1.2	4.98	5.63	1.04	5.3	5.8	8.76	7.98	2.29	-4.8	3.0	10.04	8.58	3.28	8.8	8.1	12.04	12.85	3.40	2.2	6.0	10.81	9.60	5.00
July 1991	6.2	3.2	6.05	8.27	3.14	6.1	3.4	7.46	8.07	0.75	5.3	5.8	8.15	8.59	2.29	-0.5	6.4	9.59	9.18	3.69	7.2	8.1	11.54	13.36	3.24	2.1	7.7	11.14	10.24	4.91
August	6.2	2.8	5.72	7.90	3.07	7.2	2.7	7.21	8.46	0.77	4.8	5.9	9.21	8.54	2.32	2.7	6.9	9.59	9.08	3.62	7.8	8.1	11.59	13.36	3.24	2.1	7.7	11.14	10.24	4.91
September	6.0	2.4	5.58	7.86	3.08	6.4	2.2	6.84	8.16	0.76	5.0	5.8	9.27	8.42	2.31	-2.1	5.4	9.43	8.86	3.47	6.1	7.0	11.58	13.08	3.39	2.3	8.8	10.27	9.98	4.73
October	7.1	2.5	5.34	7.82	3.08	7.5	2.1	6.30	8.08	0.72	4.8	5.3	8.96	8.31	2.41	-3.1	4.2	9.32	8.78	3.50	7.4	7.4	11.40	12.83	3.51	2.8	8.5	10.46	9.72	4.88
November	6.2	2.6	4.95	7.41	3.05	8.3	2.4	6.09	8.56	0.75	4.1	5.8	8.43	8.32	2.42	-4.8	3.9	9.36	8.82	3.60	8.0	8.3	11.59	12.92	3.58	2.9	8.8	10.54	9.77	5.00
December	8.7	3.0	4.67	7.08	3.08	8.8	2.0	5.84	8.72	0.81	3.7	1.1	8.81	8.24	2.52	-4.6	3.7	10.10	8.81	3.77	6.4	8.0	12.47	13.03	3.87	2.1	6.2	10.44	9.48	5.25
January 1992	10.2	3.1	4.09	7.02	2.87	7.6	1.8	5.15	5.45	0.83	3.9	6.3	9.54	7.91	2.36	-2.4	3.8	9.96	8.40	3.48	11.1	9.4	11.97	12.71	3.87	2.0	7.3	12.04	12.82	3.31
February	11.3	3.1	4.11	7.33	2.80	7.4	1.6	5.05	5.53	0.87	4.1	6.5	9.91	7.88	2.30	-2.0	3.7	10.06	8.44	3.40	7.3	7.2	12.10	12.99	3.87	2.2	5.9	10.44	9.48	5.00
March	11.6	2.8	4.54	7.32	2.84	7.5	1.8	4.84	5.51	0.86	4.0	7.0	7.84	7.84	2.26	-1.8	3.9	10.04	8.57	3.37	8.8	8.1	12.24	12.71	3.81	2.2	5.9	10.44	9.48	5.00
April	11.9	2.2	4.04	7.47	2.87	7.0	1.6	4.59	5.88	1.06	7.0	7.5	9.75	7.94	2.28	-1.0	3.9	10.04	8.57	3.37	8.8	8.1	12.24	12.71	3.81	2.2	5.9	10.44	9.48	5.00
May	12.2	1.9	3.88	7.39	2.85	6.9	1.1	4.59	5.86	1.00	5.8	8.0	9.79	7.98	2.28	0.9	3.0	9.86	8.59	3.35	8.0	8.8	12.24	12.80	3.46	2.2	5.8	10.89	9.41	4.91
June	11.1	1.4	3.92	7.26	3.00	4.0	0.9	4.49	5.55	1.06	5.0	7.8	7.97	7.87	2.27	-10.1	10.11	8.73	3.47	8.0	8.8	12.24	12.80	3.46	2.2	5.8	10.89	9.41	4.91	

Nomura drops libel suit against UK publisher

By Jimmy Burns

THE WORLD'S largest security house, Nomura, has decided to drop its libel action against Bloomsbury, the independent British publisher, after more than two years of legal wrangling believed to have cost well over £1m, with the lion's share paid by the Japanese.

It emerged yesterday that Nomura has agreed to a "drop hands settlement", under which both sides will bear their own costs, but all claims for damages are withdrawn.

In April 1990, Nomura issued a writ for libel in connection with the House of Nomura, a book published by Bloomsbury and written by US-born stockbroker Mr Al Alletzhauser, a former employee of James Capel. It also pressed for an injunction requiring that the book be withdrawn.

Nomura went ahead with the action after both the publisher and the author had rejected earlier demands from the Japanese company that the book should be withdrawn and a payment of damages should be negotiated.

In the original writ issued in the High Court in April 1990 claiming defamation solicitors Linklaters & Paines acting for Nomura alleged that words in the preface to the book "in their natural and ordinary meaning meant and were understood to mean" that the Japanese securities house:

- Succumbed to the demands of gangsters and/or extortionists and/or blackmailers.
- Conspired with blackmailers to misuse its funds for the purpose of making payments to the said blackmailers.
- Carried out and/or committed immoral and/or illegal acts and/or practices which they wished to conceal by making payments to blackmailers.
- Habitually engages in insider trading and misuses confidential information.

 Preparations for a trial were still under way when in July 1991 when the chairman and vice-chairman of Nomura resigned after taking responsibility for a series of scandals.

LABOUR LEADERSHIP CONTEST

Smith orders attack on Tory record

By Ivo Dawney, Political Correspondent

MR JOHN SMITH signalled a combative start to his leadership of the opposition Labour party yesterday when he ordered an all-out assault on the Conservative government's failure to deliver its much-promised economic recovery.

His call was met by aggressive speeches from Mr Tony Blair and Mr Gordon Brown accusing the government of using attacks on the new Labour leader as a smoke-screen to disguise deep-seated Tory disquiet at the continuing recession.

Mr Blair, who is expected to be named shadow home secretary this week, said the barrage of abuse in a series of speeches by Cabinet ministers last Friday was a "panic-stricken" response to the danger Mr Smith posed them.

In contrast to the Labour leader, elected by an overwhelming 91 per cent of the Labour party on Saturday, Mr John Major led a "hesitant and divided party" unable to give the country decisive leadership, Mr Blair said. "They are a government of inertia when the country needs action."

Mr Brown, widely predicted to become shadow chancellor, said the Conservatives' manifesto promise of a swift recovery had been exposed as "a fraud". He demanded action on the rising unemployment, poverty and inner city deprivation that was now threatening the social cohesion of the country.

The Labour counter-attack appeared to do little to stanch the Conservatives' targeting of Mr Smith, however. Mr Michael Portillo, chief secretary to the Treasury, is today publishing a 25-page pamphlet, charging the Labour leader with advocating outdated policies "inconsistent with the needs of a market economy."

The resumption of party hostilities comes after three months of relative calm, induced by the Labour leadership election. That ended on Saturday when Mr Smith, 53, was triumphantly acclaimed leader by 1,500 delegates at a meeting of Labour's electoral college in Westminster.

His rival Mr Bryan Gould, shadow environment secretary,



Team spirit: Labour's new leadership team of John Smith and Margaret Beckett enjoy their success at Saturday's election conference

recorded just 9 per cent of the poll, suffering heavy defeats in the constituency, MPs' and trade union sections.

As expected, Mrs Margaret Beckett, shadow chief secretary, also won comfortably with 57 per cent of the ballot for the deputy leadership.

In his victory speech, Mr Smith pledged to rededicate Labour as "the party of change" and social justice. But he also insisted that Labour needed to modernise itself by basing its internal democracy on the principle of one member, one vote and eliminating the unions' block votes.

Mr Robin Cook, campaign manager for Mr Smith, said on BBC radio that Labour would use the first year of the new leadership to re-evaluate its goals rather than revise policy. Premature policy reviews after the 1987 election defeat were a "mistake" that would not happen again, he said.

The NEC is due to meet for the first time under Mr Smith's leadership on Wednesday to put in train planning for an "aims and values" document.

Beckett may not bridge gender gap with Tories

By Ivo Dawney

THE GENDER gap - the Conservatives' commanding nine-point lead over Labour among women voters - will not be instantly narrowed by Mrs Margaret Beckett's election to the deputy leadership, an opinion poll showed yesterday.

The figures put Mrs Beckett well behind her rivals Mr Bryan Gould and Mr John Prescott when a sample of 1,052 voters were questioned as to which politicians were an asset to the Labour party.

In the deputy leadership election, Mrs Beckett won the post on the first ballot with a convincing 57 per cent of the votes in spite of what was widely seen as a lacklustre campaign resting heavily on

her gender appeal. Mr Prescott trailed with 25 per cent and Mr Gould scored just 14.5 per cent. In the survey published by Harris in The Observer newspaper, however, that order was reversed, with Mr Gould - with 26 points - rated a top asset, followed by Mr Prescott on 25 and with Mrs Beckett well behind on 17.

The role to be given to the new deputy leader once the shadow cabinet elections are completed on Thursday is still apparently unresolved.

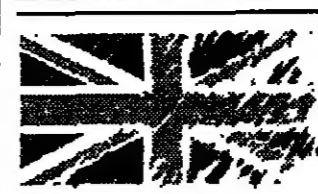
Mr Gordon Brown is thought certain to win the shadow chancellorship and Mr Tony Blair is predicted to become home affairs spokesman. Mr Jack Cunningham, provided he wins a high enough vote, is expected to replace the outgoing Mr Ger-

ald Kaufman as shadow foreign secretary. Mr Robin Cook, campaign manager for Mr Smith, is marked down to shadow Mr Michael Heseltine at trade and industry.

Mrs Beckett is most often mentioned as either shadow leader of the house, with additional party organisation and campaigning responsibilities, or as education secretary. She is regarded as highly competent for a departmental brief, making the latter post more probable. Mr Bryan Gould, defeated candidate in both leadership elections, is reported to want the foreign affairs job but is more likely to be given a lesser post.

Results of the Labour ballot, in which 270 MPs are voting on 51 candidates for 18 places, are expected on Friday.

Britain in brief



Signs of an upturn 'have fizzled out'

The gloom of recession has failed to lift after the general election, according to two surveys published today.

The Confederation of British Industry's distributive trades survey shows that high street sales last month were below those of June last year, while the London Chamber of Commerce and Industry reports falling output in the second quarter of this year.

The CBI said a small impetus to sales in shops after the general election "now seems to have fizzled out". The London chamber said that indications in its survey for the first quarter that the recession might have been coming to an end "appear to have been premature".

Group calls in receivers

Beaver Engineering Group, one of the UK's largest family-owned machine tool companies, has been placed in administrative receivership after losing a long battle for survival amid the worldwide machine tool recession.

Mr Tony Balding, Beaver's managing director and son of the company's founder Mr Victor Balding, has been made redundant, along with around 80 of the Norwich-based company's workforce. The job cuts, reducing the workforce to 60, were made by the receivers in a restructuring designed to prepare the company for possible sale.

The receivership is one of the worst blows for the UK machine tool industry in a recession that has claimed 4,000 jobs over the past two years. Beaver, founded in 1951, makes computer numerical controlled lathes and milling machines, and was one of the most technologically innovative UK machine tool makers.

Boycott threat by insurers

Life insurance companies are threatening to boycott a proposed self-regulatory body for retail financial services unless all organisations which sell the products, such as banks and building societies, are forced to join as well.

The life companies argue that unless the sale of all retail financial products are regulated in the same way consumers will suffer. If regulators cannot find a suitable structure, the government may be forced to review the entire Financial Services Act.

Threat to home loan rates

Home loan institutions suffered their second biggest outflow of deposits ever in June and are stepping up pressure on the government to make National Savings products less competitive. The Building Societies Association will announce on Wednesday that £315m flowed out of their savings accounts last month - the second biggest monthly outflow on record. Societies warned that competition from National Savings could force them to push up both savings and mortgage rates.

Jobs outlook promising

Medium-term employment prospects in the UK are surprisingly good, according to a survey by Manpower employment agency and the British Institute of Management. The survey of 163 chief executives and senior directors found 51 per cent of employers expect to employ more staff by 1996 and only 30 per cent predict an overall decline.

BA cabin crew vote for strikes

British Airways cabin crew have voted for a series of one-day strikes in a dispute over pay and conditions. The decision, by staff on British and European routes, followed a ballot for strike action, won by a 53.2% majority.

HUNGARY TELECOMMUNICATIONS BUILDING CONSTRUCTION PROJECT

Invitation to Bid

The Hungarian Telecommunications Co. Ltd. (hereinafter referred to as HTC) has received a loan from the European Bank for Reconstruction and Development (EBRD) towards the costs of constructing a new telephone exchange building complex in District VII of Budapest. The gross floor area of the completed building will be 10,813 square meters, comprising two basement floors and five upper floors and it is anticipated that the contract period will be for 18 months commencing in December 1992.

HTC now invites sealed bids from qualified bidders for the detailed design, construction, fitting-out, furnishing and commissioning of the said building complex. The contract will not include the installation and commissioning of the telephone exchange which will be let under a separate contract.

As part of their tender, contractors will have to be able to demonstrate compliance with the following minimum criteria, inter alia:

- A proven track record in Hungary, or in one of the other emerging democracies of Eastern Europe, including recent projects of a similar size and complexity either completed or under construction.
- A sound corporate financial record over the last three financial years. Companies with an annual turnover of less than USD 50 million will not be considered.
- A project management team, the key members of which will have proven experience in similar projects carried out under similar conditions in similar environment.
- A logical and well thought out approach to how the project will be managed within the time, cost and quality requirements of HTC.

This invitation for bids is open to contractors from all countries. Consortium bids, particularly those involving Hungarian and Foreign contractors, will be welcomed although the structure and modus operandi of the consortium will have to be clearly and logically presented.

A complete set of tender documents may be purchased upon confirmation of payment of a non-refundable fee of ECU 200 (or of the equal amount in any other freely convertible currency). Hungarian companies may purchase the tender documents for HUF 20,000. Remittances are to be made to account # 215-12087 of HTC kept with the Hungarian Credit Bank Ltd. (MHB) with the following remark indicated:

"Erzsébet Exchange - Telecom Building Construction # TB-101/KA"

Cash payment is accepted into the above stipulated account only in the following branch office of MHB:

Magyar Hitel Bank Rt.
H-1133 Budapest, Pozsonyi u. 77-79. - Hungary

No other forms of payment is acceptable. Only those who have purchased the tender document may submit bids. Bidders may obtain the tender documents (upon presentation of the receipt for the payment of the above fee) and may get further information only after 3rd August, 1992 from:

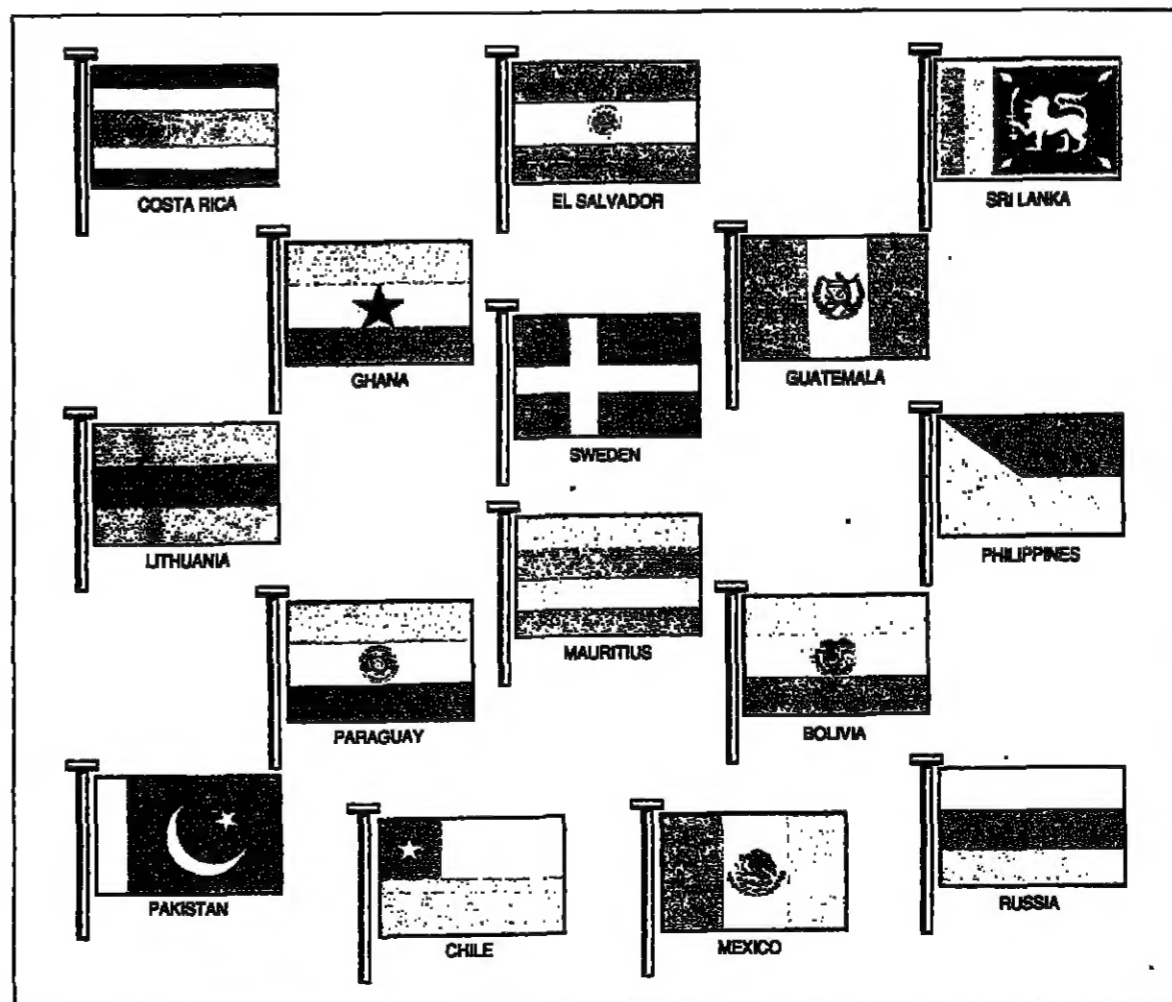
Hungarian Telecommunications Co. Ltd.
Tender Bureau
Mr. Attila Kovács
H-1122 Budapest, Krisztina krt. 55., Room #308
Hungary

Tel: +36-1-155-5198 Fax: +36-1-155-0446

HTC will organise a pre-bid conference for those who have purchased the tender documents. The language of the conference will be English and it will be held at 10.00 a.m. on 24th August, 1992.

The deadline for submission of bids is 10.00 a.m. on 12th October, 1992. The place of submission of bids is indicated in the tender documents.

Further details are given in the tender documents.



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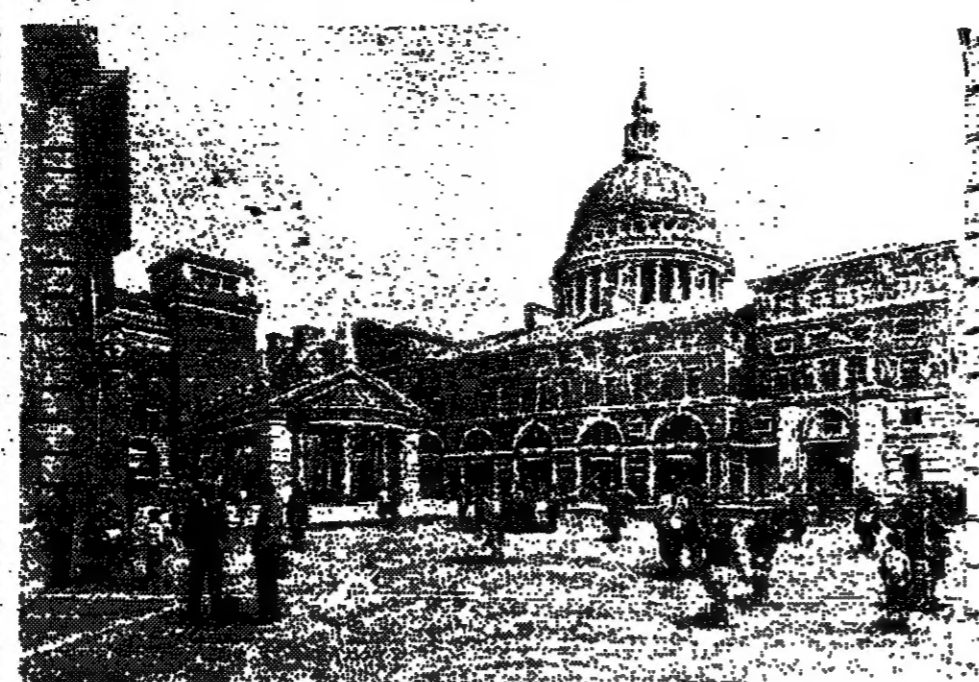
MILLICOM INTERNATIONAL CELLULAR S.A.
75 Route de Longwy, L8005 Bertrange, Luxembourg

Architecture/Colin Amery

The long saga of St Paul's precinct draws slowly to an amicable close

THE long saga of one of the most important sites in London is slowly drawing to a close. Last Friday, July 17, Paternoster Associates, a partnership consisting of Greycoat Estates, Park Tower Group and Mitsubishi Estate Company, put in the final planning application for the redevelopment of Paternoster Square to the North East of St Paul's cathedral. The planning committee of the City of London last looked at the proposals for this vital area in December last year when they seemed to be far from happy on several fronts. It is in theory not the role of the planning committee to make architectural decisions and so their objections were mainly to do with the layout of the scheme, and how the scheme had followed the rules relating to St Paul's heights. There was at that time a feeling that density was the problem too, and that the proposals were worryingly close to overdevelopment.

The major changes concern the new central square which does not now have a large sunken area but is all on one level. There is a new central market hall designed by John Simpson which shelters the cathedral's 'back' from the underground station and to some shopping. There is now a great deal of shopping at ground level throughout the development. John Simpson has designed for the market hall, a Doric temple with obelisks at the apex of the pediments. It could be an entertaining building. The biggest re-design has been carried out on Tom Beeby's large office building at the west end of the site. It now looks like a fine example of Edwardian Baroque and does have less mass and bulk than its predecessor. More views of the cathedral have been opened up throughout the scheme and although it is hard to overcome the bulk of so many offices, the ground level of the whole scheme is now much more interesting.



Revised proposals for the redevelopment of Paternoster Square

It has always been my view that there should be more public activities on the site and that an hotel, the City Corporation's art gallery and part of the Museum of London belong on this site. A really fine Health Club would, undoubtedly do well - the one proposed looks on the mean side. Property developers believe their researchers (despite Canary Wharf) who tell them that only offices and more offices will succeed when the recession is over. Although there is optimism that this particular scheme, because of its marvellous location, may well succeed despite the recession, I cannot believe that it is too late to look at what the planners call, enhancing the mix. There are still two very sen-

sitive areas of great concern in the Paternoster proposals. They do not technically form part of the consortium's plans but they are very much related to the final plans for the whole area. One is the site now occupied by the ghostly tower block near Newgate Street known as Sudbury House which is now the responsibility of Nuclear Electric. This is to be demolished and its replacement will impinge considerably on the master plan for the whole Paternoster site. A design has been prepared by the Rolfe Judd Partnership for a large low, deep plan block. To date it looks as though it will be a compatible, if unexciting neighbour.

The other more significant site is the major one on the north side of Ludgate Hill, close to the West front of the cathedral which is currently occupied by Juxon House. This is in different ownership from the major part of the Paternoster site but talks have been held between the owners to ensure a degree of architectural compatibility. The architect for the replacement of Juxon House, is William Whitfield and he is likely to produce a decent neighbour. He is highly experienced in designing for sensitive sites. He was consultant on a major office building near Westminster Abbey. He has designed the new Chapter House at St Alban's Abbey and his new offices for the Department of Health by the Cenotaph in Whitehall have won plaudits

from a variety of critics. I can see no reason for the City of London Planning Committee to be disappointed in the revised Paternoster scheme - it has been adapted to meet all their criticisms. The site is so well located that its owners feel that it is almost outside the property recession. The present near derelict condition of the site - at the heart of the City - should shame everyone into action. I recommend a visit to the Guildhall to see the revised model (from July 23) particularly as the exclusive group that runs the Architecture Foundation refused to include Paternoster in their recent 'City Changes' exhibition at the Royal Exchange. When will we have a genuinely catholic architectural culture?

The Proms/Max Loppert

Verdi Requiem

On Friday the 98th BBC Promenade Concerts season was launched with splashes of ceremony: the Princess of Wales (vigorously cheered) and the Prime Minister (cheered and booed) arriving in the grand tier, Britten's ingenious arrangement of the National Anthem to open the three-month festival, the Albert Hall brilliantly lit - the concert was being transmitted live on television and radio.

A splashy send-off was deserved. Judged from the printed schedule, this summer's mixture of works and performers has been gauged by John Drummond, the Proms Director, with as much skill and cunning as ever. The opening evenings afforded a choice example of that scheduling skill - each filled, entirely or in large part, with one of the large-chorus, large-orchestral Proms staples that reach out to fill every corner of the great hall with exhilarating sound.

On Friday it was the Verdi Requiem, in which the BBC Symphony Orchestra and BBC and LSO choirs were conducted by Andrew Davis. On Saturday, in a Royal Philharmonic Orchestra concert of English music conducted by Vernon Handley, it was the Vaughan Williams *Symphony*, sung by the Brighton Festival Chorus and London Choral Society. Neither concert lived up to its printed-page promise; nevertheless, the feelings of gladness that surge in every Prommer's breast as the season begins, and gratitude for the largesse, idealism and flair that continue to mark the whole enterprise, survived unscathed.

David Murray/Opera Almeida Festival

Besides the two more spectacular pieces already reviewed here, the Almeida Opera Festival mounted a pair of smaller operas on Friday. They had nothing in common but their admirable pianist, Helen Crayford. One was a commission from the American composer Nils Vigeland; the other, a bright little farce which seems to have been so thoroughly ignored after Ernst Krenek wrote it in 1945 that it was copyrighted only in 1980.

Vigeland's *False Love/True Love* is a two-hander on a pair of scenes from *Jane Eyre*; first, Jane rejecting Rochester after their aborted wedding, and then her later return, when - reassured by his having become blind and crippled - she decides to marry him after all. Susan Bissat made a sensitive, lyrical Jane; Mourig Davies's poyntal and designer stubble looked right for Rochester, but his pitched tone was so dry and shallow that most of the role emerged in *Sprechstimme*.

As for the music... Well: if the programme-book had announced *False Love/True Love* as an experiment in adapting an 1885 piano trio by a minor French composer (somebody from the Chausson-Paure ACT'e circuit) for setting Charlotte Brontë's, we should all have believed it without question. The trio tinkled and warbled away, bland and mild, and the vocal parts followed meekly.

It all had the pastel passion of a period chocolate-box lid. Presumably Vigeland really did write it himself - but one couldn't guess why. Caroline Gawn's production, like Brad Cohen's conducting, was ultra-discreet.

On paper Krenek's own comic text for *What Price Confidence*, about would-be marital infidelities, and his brittle piano-score (serial, I think, though lightened by friendly added-note chords), might seem to recall Schoenberg's dire *Von Heute auf Morgen*. The recur-

rent theme of "having confidence" here operates rather like the recurrent sneer at "moderne Menschen" in Frau Schoenberg's libretto. But Miss Gawn's crisp, witty direction - making resourceful use of the basic set for the bigger Almeida operas - and Miss Crayford's impeccably sprightly piano lifted that curse altogether.

With a first-rate quartet of husbands and wives doing their best to err (Angela Tunstall, Rachael Halliwell, Geoffrey Dolton and Kevin West), the piece was delightful beyond expectation. Nearly paced, not a minute too long, Krenek's music points and underlines the comic exchanges wryly and deftly. How sad that a staging so expertly prepared should get just a single performance! The Brontë confection was awarded a second showing on Sunday, but it should have been *What Price Confidence*.

Autumn jazz at UCS

The autumn series of jazz concerts at University College School Theatre, Frognal, Hampstead, NW3, begins on Thursday September 24 with singer Marion Montgomery, accompanied by the Laurie Holloway trio.

American saxophonists Red Holloway and Harold Land appear on October 8 with the John Critchinson trio. Singer Elaine Delmar is in concert on October 15 along with saxophonist Duncan Lamont and the John Horler trio. Other musicians appearing before Christmas include Brit-

ish saxist Danny Moss with his wife, singer Jeanie Lamb, on their annual visit from their home in Australia.

Jelly Roll jazz

The music of pianist/composer Jelly Roll Morton will be played by Martin Litton's Red Hot Peppers on Wednesday September 23 at the Elizabeth Hall in London. The concert starts at 7.45pm.

Further details from Michael Webber, 19 Netherhall Gardens, London, NW3 5RL.

FT COMMENT TRAVELS THE WORLD

Iphigenie en Aulide

The Theatre du Soleil seldom tours, but it performs at the Cartoucherie in Paris (near the Chateau de Vincennes) and rarely anywhere else. Twenty years ago its visit to London's Roundhouse Theatre made a great impact. Now the European Arts Festival has brought the company for a week of performances (July 16-23) to perform *Les Atrides*, a tetralogy of Greek tragedies - Euripides's *Iphigenie en Aulide* followed by Aeschylus's *Oresteia* trilogy. Robin Mills, has been especially converted for the purpose to become the Cartoucherie of the North.

Excitement is high, and *Iphigenie en Aulide* - on which I report here - was greeted with an ovation. To me, however, the great event of the evening was simply Robin Mills himself. A large foyer space, transformed into an astonishingly festive bistro, serves a splendid array of food and drink. The auditorium was abuzz before it was even half-full, and the news that it might grow very warm over 140 minutes (no interval) simply added to the anticipation.

You will have guessed by now that the performance disappointed me. The Theatre du Soleil's director Ariane Mnouchkine has formed a vivid pop multi-culturalist performing style. Costumes, movement, music all show elements of numerous idioms. But if you've seen Kabuki theatre or Indian dance or any of a dozen other styles recently, you can't help seeing how merely cute the Theatre du Soleil's use of them is. Friends tell me that the company has changed; one chum who had been thrilled at the Roundhouse in 1971 said "They've forgotten everything that made them remarkable." What saddened me most was that at the heart of this far-from-radical-now multi-culturalism was standard bad old French hammy acting.

Euripides, by the way, has been rendered into thoroughly obvious periphrase by Jean Mayotte Bollack. No simultaneous-translation device is provided and those with a mere smattering of French will need none. The actors speak deliberately and in wretchedly short phrases. Characterisation and utterance are in no way original. Iphigenie is white-voiced, doe-eyed and cloying. Clytemnestra switches from maternal excitement to distress with an overdose of *larmes dans la voix*. Achilles is gauche, and so on. Some actors double roles, rather as the Greeks did, but here they just switch from one stereotype to another.

Jean-Jacques Lémètre and his assistants accompany everything - monologues, dialogues and choruses - on a spectacular array of exotic instruments, but - once you're past the fun of a few Oriental twangs and so on - it's dismaying how near to Hollywood his technique is. Those may have been Asian cellos, but the tremolando accompaniment he produced from them for one tense moment after another was standard melodramatic kitsch. The chorus dance but never with any of the rhythmic intricacy or impetus of the Greek lyrics.

The pleasure of the evening came in its trappings: not just the foyer but also the bare wooden space itself, and the magnificently colourful costumes, make-up and wigs worn by all. That's the best side of French theatre for you. Too bad that the evening also showed the worst.

Alistair Macaulay



Simon Abkarian and Juliana Carneiro de Cunha of the Theatre du Soleil in *Les Atrides*, a tetralogy of Greek tragedies.

INTERNATIONAL ARTS GUIDE

FESTIVALS

AIX-EN-PROVENCE

Aix this year sidesteps the Rossini celebrations and offers instead a cast of leading American singers in *The Rake's Progress*, conducted by Kent Nagano. Samuel Ramey is Nick Shadow, Tatiana Troyanos is Baba Turk, Jerry Hadley is Tom and Dawn Upshaw sings Anne Trulove. This week's performances are tonight and Sat (also July 28 and 30). Tomorrow and Fri (also July 26, 29 and 31). Armin Jordan conducts Giorgio Marini's new production of Don Giovanni and Andreas Schmidt in the title role. The third opera on the programme is a revival of one of last year's successes: Britten's *A Midsummer Night's Dream* (Wed and next Mon). Theodor Guschlbauer conducts a Mozart concert tonight, and William Christie directs *Les Arts Florissants* in two Monteverdi

programmes (tomorrow and Wed). Thursday's Milhaud and Mahler concert is conducted by Nagano. Dmitri Hvorostovsky gives a song recital on Fri. Ends July 31. (16) 4217 3434.

AVIGNON

This year's festival has a strong Spanish and Latin American theme. Lluís Pasqual's compilation of Lorca texts, entitled *Los Caminos de Federico*, has its first performance tonight at the Cioitre des Carmes (repeated tomorrow, Wed and Thurs). Fler Paol's Pasqual's Calderon, adapted for the stage by Jean-Paul Manganaro and directed by Jean-Louis Martelli, opens on Wed at the Salle Benoit XII.

A series of traditional Mexican dance programmes is being presented every evening at 22.00 at the Cioitre des Celestins. Ends Aug 3. (90) 862443.

BAYREUTH

Scottish conductor Donald Runnicles makes his Bayreuth debut in Tannhauser on Saturday, the opening night of this year's festival. German tenor Wolfgang Schmidt sings the title role and Tina Kiberg is Elisabeth. Wolfgang Wagner restages his 1985 production.

The first of three Ring cycles - the fifth and final year of the Barenboim-Kupfer production - begins on Sun. Parsifal and Der fliegende Holländer are also on the programme. Ends Aug

28. (521) 20221.

BREGENZ

The festival opens tomorrow with Harry Kupfer's new production of *La Damnation de Faust* in the Festspielhaus, with David Kuebler in the title role and Philippe Rouillon as Mephistopheles. Carmen is revived on the floating stage, and the concert programme begins next Mon with a Bruckner and Zemlinsky programme conducted by Ulf Schirmer. Ends Aug 23. (5574) 4920 224.

GLYNDEBOURNE

The final performances in the old theatre are *Death in Venice* tonight and Wed, and *The Queen of Spades* on Tues and Thurs. After the gala concert on Fri, the theatre will be pulled down to make way for a new opera house, which will open in 1994. (273) 541111.

MACERATA

This year's operas are *La traviata*, *La sonnambula* and a series of Rossini one-acters. Gustav Kuhn conducts the Verdi at the Sferisterio on Sun and also the Rossini productions, which open at the Teatro L. Rossi on July 28. Mariella Davis heads the cast in the Bellini, which opens at the Sferisterio on Sat. Ends Aug 11. (733) 230735.

MONTPELLIER

Tonight's performance is

Handel's oratorio *Jephtha*, conducted by Paul Dombrecht. Jan Latham-Koenig conducts orchestral concerts tomorrow and Wed, with programmes ranging from Edward MacDowell's *Second Piano Concerto* to Poulenc's *Milhaud*. There is a big band jazz concert on Thurs, and a concert performance of Puccini's *Edgar* on Fri, conducted by Thomas Fulton. Elizabeth Connell sings Wagner arias on Sun. Next Mon: Gianfranco Masini conducts Alberto Franchetti's 1892 grand opera *Cristoforo Colombo*. Ends Aug 1. (67) 616881.

SALZBURG

This year's festival, under the direction of Gerard Mortier, opens on Saturday with Mahler's Sixth Symphony by the Gustav Mahler Jugendorchester conducted by Michael Gielen. Peter Stein's Julius Caesar opens in the Felsenreitschule on Sun. The opening opera production is *La clemenza di Tito*, conducted by Riccardo Muti (first night next Monday). The festival breaks ground by staging its first Janacek production (From the House of the Dead conducted by Abbado, first night July 30) and introducing Peter Sellars to Salzburg to produce Messiaen's *St Francois d'Assise*, with Jose van Dam in the title role (first night Aug 17). Ends Aug 30. (862) 846882.

SAVOLINNA

The Savolinnna Opera Festival,

set in the imposing surroundings of Olavinlinna Castle in Finland, is celebrating its 25th anniversary. This year's new production of *Fidelio* (tonight and Thurs) is conducted by Leif Segerstam and staged by August Everding. *Aida* (tomorrow) has a cast of distinguished Finnish singers, including Matti Salminen. Die Zauberflöte, sung in Finnish, is another Everding production (Wed and Fri). The first night of *Porgy and Bess*, in a production by Opera Ebony from the US, is on Saturday (also July 28, 29, 30, 31). Soloists give a concert of negro spirituals in Savolinnna Cathedral on Sunday. Ends July 31. (57) 514700.

SCHLESWIG HOLSTEIN

The Lithuanian National Symphony Orchestra tours the region this week, performing works by Schnittke, Sibelius, Mendelssohn and Hummel, and ending with a popular programme of *Rossini*, Britten and Orff on Saturday at Hamburg's Derbypark Klein Flottbek. Chorus from Estonia sing works by Baltic composers tonight at Husum. Evelyn Kissin gives a piano recital on Fri at Kiel. Weekend events include the Hilliard Ensemble at Rendsburg and Itzehoe, and the King's Singers at Nieblum. Next week: Rattle and the CBSO at Kiel and Hamburg, plus Peter Schreier and Hermann Frey. Ends Aug 23. (431) 567080.

TANGLEWOOD

John Williams leads the Boston Pops Orchestra in its annual appearance at Tanglewood tomorrow. Baritone Sanford Sylvan sings Schubert's *Die schone Mullerin* on Wednesday, and the three Boston Symphony Orchestra concerts at the weekend. The programme on Friday is Prokofiev's *Alexander Nevsky*, as accompaniment to Eisenstein's film. Sat: Emanuel Ax plays Shostakovich's First Piano Concerto. Sun: Dennis Russell Davis conducts works by Beethoven, Mozart and Ravel, soloists including Alicia de Larrocha. Next week's guest conductors are Leonard Slatkin and David Zinman. Ends Sep 1. Ticketmaster Boston (617) 931 2000 New York City (212) 307 7171.

VERONA

This year's operas at the Arena are Don Carlo, *Aida*, *La boheme* and *Nabucco*. *Aida* (tomorrow, Thurs and Sun) has a cast led by Sharon Sweet, Gail Gilmore and Nicola Martinucci. A new cast takes over next week. *La boheme* (tomorrow and Sat) has Alberto Cupido as Rodolfo and Lucia Mazzaria as Mimì. Don Carlo (Fri) has a cast led by Luis Lima, Renato Bruson and Maria Dragoni. *Nabucco* joins the repertory on Aug 7. Lorin Maazel conducts Porgy and Bess on Aug 24, with Simon Estes and Wilhelmina Fernandez in the title roles. Ends Aug 30. (45) 590109.

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN 0900-0930, 2300-2330 World Business Today - a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel 0830-0900 (Mon) FT East Europe Report - weekly in-depth analysis from FTV

2130-2200 (Tues) Media Europe - what's new in European media business

2130-2200 (Wed) FT Business Weekly - global business report with James Bellin

0830-0900 (Thurs) Media Europe 2130-2200 (Thurs) FT Eastern Europe Report

0830-0900 (Fri) FT Business Weekly

Sky News 0130-0200 (Mon), 2130-2200 (Thurs), 0630-0600 (Fri) FT Business Weekly

SATURDAY

CNN 0900-0930 World Business This Week - a joint FT/CNN production 1900-1930 World Business This Week

Super Channel 1930-2000 FT Eastern Europe Report

SUNDAY

CNN 1030-1100, 1900-1930 World Business This Week

Super Channel 1800-1830 FT Business Weekly

Sky News 1830-1900, 2330-2100 FT Business Weekly

FINANCIAL TIMES

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Monday July 20 1992

Bush and the comeback kid

MR ROSS Perot has done a double service to his country. His campaign for the White House demonstrated the depth of dissatisfaction felt by many Americans about their political system and thus gave a salutary shock to both main parties. But his timely withdrawal has also removed an element of confusion. It would have been ironic if Mr Perot's populist campaign had taken the ultimate choice of the next president away from the voters and placed it in the hands of politicians.

A Perot presidency would certainly have been a great disappointment to his supporters, because the premise on which his campaign was based is wrong. That premise was that there are simple solutions to America's problems, and that all that is lacking for the application of those solutions is competent leadership. Such a perception is common among people looking at politics from the outside, especially perhaps from the world of business. It neglects the fact that in a democracy those who take decisions in the general interest face coalitions of those who believe their particular interests are being damaged. Overcoming this problem is the essence of political leadership. Effective leadership is unlikely to come from a man who denies the existence of the problem.

It is somewhat odd that Mr Perot, having decided to withdraw, should now encourage his followers to keep his name on the ballot and remain in being as an organised pressure group, seeking to influence the main parties. To do that they will have to draw up a programme and stress the importance of specific policy positions, precisely what Mr Perot himself refused to do.

A campaign focused on policy issues would, however, be a well-

come change. In theory it should now be possible. There is a clear choice between two candidates. They do not represent utterly opposed political philosophies. On the contrary, both represent the moderate wing of their respective parties, and therefore should in theory be well placed to compete for the middle ground. Mr Clinton seems to have made a shrewd move in breaking with convention and choosing a vice-presidential candidate close to him both politically and geographically, thereby stressing that the new orientation of the Democratic party reflects more than a temporary balance of forces within the party.

But the two candidates do differ in their priorities, and the campaign should help to clarify that. On issues ranging from taxation through health care and the environment to the type of judge nominated to the Supreme Court, it will make a significant difference which of them occupies the White House for the next four years.

On Mr Clinton's side is the argument that the Democrats are almost certain to retain control of both houses of Congress, and that a Democratic president may therefore stand a better chance of breaking the deadlock on the federal budget. On Mr Bush's side is his much greater experience of, and interest in, international affairs. Although happily Mr Clinton, unlike Mr Perot, is not challenging the US's basic commitment to free trade and to a leading role in global security, foreigners will worry lest these matters get a lower priority. On the other hand effective US action to address its most acute domestic problems is not an alternative to, but in the medium term a condition of, its remaining an effective superpower. World leadership begins at home.

National Savings

FRIDAY'S decision by Cheltenham & Gloucester, the UK's sixth largest building society, to raise its mortgage interest rate from 10% to 10.99 per cent was a shock. But this modest increase was not really so surprising. Nor can it be blamed simply on mistaken policies towards National Savings. While the Treasury may have made a tactical error, it is its strategic problems - the fiscal deficit and the rates of interest set by Germany - that matter most.

The official forecast for the public sector borrowing requirement this financial year is £25bn. With little, if any, economic growth in prospect this year, the PSBR is likely to be larger, perhaps as much as £25bn, or 5.6 per cent of gross domestic product. To put this sum in context, the Treasury expects to collect only £40bn from value added tax in 1992-93.

How can the government avoid crowding out other borrowers, when its own needs are so large? It cannot. It can only choose whom it crowds out and how.

The government can, and should, underfund the PSBR. In other words, it should finance as much as possible by selling bills to banks rather than gilts to the public. This policy would have three merits, apart from disposing of the arbitrary full-funding rule. First, it would expand broad money, which has been growing too slowly; second, it would tend to raise short-term rates of interest, so strengthening sterling, relative to long-term rates of interest, so facilitating corporate borrowing; and third, it would reduce the amount of long-term borrowing at nominal rates of over 9 per cent. A government that believes inflation will soon be 2 per cent should either borrow short term or via

Labouring on

THE NEWLY elected leader of the Labour party, Mr John Smith, sounds remarkably like a man who believes that with just a little extra effort on the part of the opposition the Conservatives will be dismissed at the next general election. His acceptance speech on Saturday had the tone of a "one more heave", a man not yet ready to entertain the sweeping changes that will be made if Labour is to fulfil its primary function of acting as an elective alternative government.

Mr Smith did of course talk of change. He touched on many of the issues of immediate concern to the would-be reformers in his party. Labour must appeal to women, he intimated. It must attract the green vote and also address itself to poverty in the developing countries. Constitutional reform will be high on his agenda. There will also be reform of the internal workings of the party, which he accepts can no longer be based on the exercise of the block vote by trade unions. He projected himself as an interna-

index-linked securities. Yet by raising short-term rates of interest, underfunding would exacerbate the consequences for mortgage interest of the Treasury's desire to fund part of its deficit via direct sales to the public. From the point of view of the building societies, the government is succeeding too well. In the first quarter of this financial year, National Savings raised £1.5bn, as against £2.1bn in the whole of last year. Last month's net outflows from the building societies, at £315m, were the second biggest ever.

The launch of First Option, a one year investment at a gross interest rate of 10.34 per cent, is making things worse. This rate of interest is higher than that offered by most building societies, but it is not out of line with the markets. Nor would borrowing equivalent sums in the wholesale market preclude pressure on the building societies via the interest that could then be offered by banks.

Not using National Savings so aggressively would certainly be more tactful. But an upward drift in mortgage rates relative to money market rates, is probably inevitable, in any case. A mortgage interest rate of 10% per cent only makes sense if the risk is impeccable. But mortgages are no longer impeccable risks.

With the government an aggressive competitor of the home-purchaser as well as sterling's credibility now in doubt, mortgage interest rates are bound to be under pressure. Underfunding, though desirable, would make this pressure still greater. The government might minimise the extent to which it is identified as a direct competitor of the house buyer. But there is not much it can do about the fact that it is.

nationalist, a good European, leader of a party committed to the social chapter rejected by Britain at Maastricht. Perhaps most promisingly for Labour's future chances, he proposed to speak for all the opposition parties, plus disgruntled Tories.

Thus the desire to broaden the base of his party's support is clearly there. What is missing is evidence that Mr Smith understands how to set about this daunting task. His appeal to the altruism of middle-class voters reflects a genuine moralistic streak within the Labour movement, but the truth is that successful political parties nearly always reflect the interests of particular groups of supporters. Labour's traditional working-class base is steadily shrinking. It has yet to make headway in the south of England. It must find new ways of appealing to the middle-classes. Nothing that Mr Smith said on his first day as leader gives reason to believe that Labour is ready thus to reposition itself in the marketplace of British politics.

The cream of Italian business and finance was seduced into rising at the crack of dawn last month by the prospect of a day on board the British royal yacht, Britannia, with the excuse of a conference on privatisation.

After being welcomed with 1950s tunes from a Royal Marines' band, the audience was given a hard-nosed sell of the City of London's services. The arguments were impeccable: Italy possessed the biggest state sector in Europe and an impossibly large budget deficit - ergo, privatisation was the most effective means of reducing the role of the state and releasing resources. The City was there to help.

A city, however, a distinguished Italian financier very politely said that the gentlemen from London were wasting their time. Things were different in Italy, and privatisation an unreal dream.

Yet now the new government has unexpectedly placed privatisation at the top of the agenda. "I am creating a machine that will be forced towards privatisation," Prof Giulio Amato, the Socialist prime minister, told the FT last week.

Since then, the four principal public entities - IRI, the main state holding company, ENEL, the national oil concern, INA, the insurance authority, and INA, the insurance authority - have been converted into joint stock companies under the tutelage of the Treasury. In turn two super-holdings are being set up, with the Treasury as the initial shareholder, which will house these four entities and other state assets, principally the banking groups BNL and IMI.

The two holding companies, with initial assets of £60,000m (£27.7bn), will be responsible for what could become the biggest state sell-off in the European Community. Certainly, the prime minister intends to change radically the corporatist culture of a benign state subsidising industry and deeply involved in every aspect of economic life, which has been a feature of the country's development since the early days of Mussolini in the 1930s. Already, ENEL, the third-largest state holding, with 37,000 employees and activities that span aluminium, aerospace, defence and transport, was last Friday put in the hands of a special administrator charged with winding it up.

"You begin by saying you are in year zero, and you should reduce the role of the state as much as you can," says Prof Amato. The Organisation for Economic Co-operation and Development estimates that Italian state-controlled companies employ 15 per cent of the non-agricultural labour force, and account for 20 per cent of added value and 25 per cent of fixed investment, while the state also controls two-thirds of the banking system.

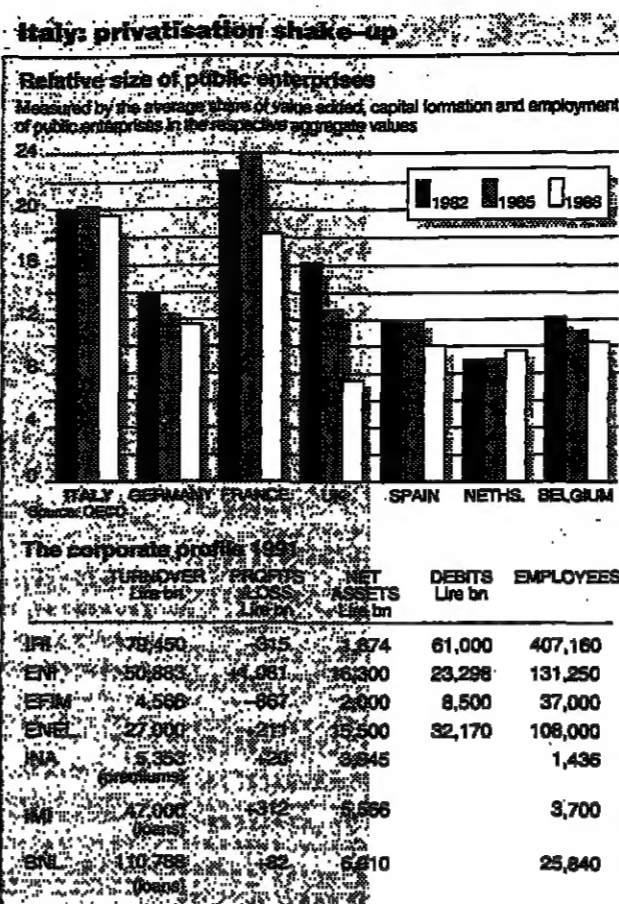
In spite of growing pressure from EC partners to deregulate the state of public finances, the previous Andreotti government dithered over such a move for nearly a year and, only three weeks ago, was talking of limiting the change to ENEL, giving the group 60 days to complete its change of identity into a joint stock company.

The Amato government has moved so fast and kept its plans so tight that the managers of the companies concerned were largely in the dark. According to Prof Giuseppe Guarino, the industry minister and one of the leading figures in the privatisation plans, there are two principal lines of action.

The first is to provide the government with room for manoeuvre, free of the political parties. This

Privatisation has suddenly been put at the top of the agenda, says Robert Graham

The Italian auction begins



explains the control of the state entities being placed in the hands of the Treasury ministry technicians. Until now the boards of state companies have been appointed through deals struck by the leaders of the parties in government, to ensure that their own party patronage is taken care of.

In tandem with removing control from the party bosses, the government needs to obtain quick finance to plug the widening 1992 budget deficit, equivalent to more than 10.5 per cent of gross domestic product. To this end, the two super-holdings will issue convertible bonds or warrants to be underwritten by a consortium of banks. A 45 per cent ceiling has been placed on private ownership of the holdings.

But Prof Guarino insists no ceiling has been placed on the sale of shares in the operating subsidiaries of those companies in the two holdings. He also adds that no sector is sacrosanct. The finances of the companies are so parlous that a large-scale divestment may well be necessary. The resultant pattern of ownership may be incompatible with the government's desire for a German model of commercial bank influence over the corporate sector.

The prime minister himself says the bottom line is quite simply that the state has no more money to offer the long list of companies in need of recapitalisation and debt relief - and even if it had, the EC

would not permit old practices of state subsidy and grant.

The second aim is to buy time in which to reorganise the existing operating companies under the holdings and to decide a rational order of sell-offs. Prof Guarino recognises that this will take about three years because it will entail issues of industrial strategy and reorganisation, plus tackling the complex question of debts. IRI's debts alone are now close to £50,000m.

This process of reorganisation need not interfere with existing plans for flotations of companies and banks held by IRI and ENI. For instance IRI's telecommunications holding, Stet, has begun to cut its stake in Sip, the telephone utility, to obtain funds. ENI is at an advanced stage in preparing to sell tranches of Agip and Snam, its oil and natural gas units.

The immediate task is to decide who will manage the super-holdings and the nature of their respective boards. "To be credible, we will need to see competent people who can demonstrate they are not puppets of the parties," said a foreign merchant banker.

The government also has to decide quickly on the composition of these two holdings. Should ENI and ENEL be placed together as a single energy-based super-holding group, or should it include IRI; and

should the second proposed super-holding group comprise exclusively banking and financial interests, ie INA's insurance activities, along with the Treasury-controlled banking organisations BNL and IMI.

Logically this broad division into energy/industry and financial/banking would necessitate hiving off IRI's huge banking and financial interests. This division by activity could also enable privatisation to proceed more rapidly, especially as the banking sector is better placed than other sectors for self-off (some areas of the banking sector have already been privatised).

The sceptics still remain to be convinced that the government has not bitten off more than it can chew. Their objections are: first, political, part financial. This state investment - an important instrument for development, especially in the economically depressed south - has often been determined by political factors. By contrast ENI has grown up under the entrepreneurial ethos of the late Mr Enrico Mattei, whose skills demonstrated that energy-dependent Italy could develop a dynamic state company capable of securing a portion of necessary oil and gas supplies through innovative exploration and production deals overseas.

The politicians have also come to rely upon generous state benefits as a means of ensuring social consensus as well as funding large party machines that in turn deliver votes.

State control of television, the air lines, railways and the banking system have permitted formidable patronage. Yet with a fragmented party system, a revolt of the electorate in the north in favour of the government and better services, the political side of Prof Amato's problems may be less than they appear at first glance.

More complex are issues of management and industrial relations. Privatisation brings into play the whole question of industrial relations which perforce must challenge overmanning, illogical distribution of plant and unnecessary factories. Overmanning could be as high as 20 per cent in the public sector. Industrial peace meanwhile has been bought until now by a combination of generous pensions, well-paid layoffs, padded payrolls and politically directed investment. The threatened closure of a factory whether in the private or public sector provokes a chorus of protests and almost inevitable backtracking, especially in vote-sensitive areas like the south.

Over the past decade industry has lost 778,000 workers, but these have been covered either by early retirement or by moving into services. However, the slowdown of the past 18 months, greater competition and higher costs have put at least 200,000 jobs at risk, according to Cgil, the main union confederation.

The union leadership recognises that the old forms of militancy no longer have much currency among its members and that Italy is entering a new climate of industrial relations. Much therefore depends on the outcome of tripartite talks with the employers and government, currently in progress on a new structure for wages and employment.

Finally, there is the domestic financial market. Currently, 75 per cent of savings are in Treasury paper, financing the debt. So long as interest rates are high and tax breaks are favourable to Treasury bonds, the public has little incentive to buy shares in privatised companies, especially when Italy has such a poor record of protecting minority shareholders. The stock market itself is a victim of the public's propensity to buy Treasury bonds, but it is also small because it has failed to modernise and encourage Italian private companies to use the bourse.

The market's capitalisation is only \$125bn, one-eighth that of London. Launching even one large issue like that of the bank San Paolo di Torino for L1,525bn earlier this year poses enormous problems in drumming up investor support. This suggests that the government has to give priority to speeding up modernisation of the financial system as a whole - not least to encourage international investment which will be needed to absorb a sizeable slice of the privatised offerings. The international financial community has to be given incentives to buy into Italian stocks, both through greater freedom to operate on the ground and through attractive guarantees of what is on offer.

Take the example of ENEL, the electricity authority. Foreign groups have shown great interest in its potential. But at the moment tariffs are blocked, and the first thing investors are demanding to know about a new ENEL is its tariff structure, because only on this measure can they base yields.

The task ahead is thus a minefield of difficulties and the initial positive moves will need to flesh out a flimsy framework.

Samuel Brittan

Don't look for gurus



Saturday on whether leaving the European Exchange Rate Mechanism would "help Britain".

Of these, three said "yes", four said "maybe", and one, Peter Spencer of Kleinwort, was brave enough to give a forthright "no", saying that if the UK left the ERM, overseas investors would "find it difficult to believe the word of the UK government in the future".

I am not so concerned about the three downright "yes" answers. Patrick Minford has always opposed the ERM, and Wynne Godley at least the hard contrainflationary version. I am more concerned about the four "maybes". Two of these concentrate on predictions rather than giving their own opinion and are mainly anxious not to be caught out by events. Another says the UK was right to join in 1990, but should soon contemplate departure.

One "maybe", David Currie, of the London Business School, comes near in his admittedly very summarised Financial Times contribution to advocating an alternative package of devaluation plus deep public spending cuts and an independent Bank of England, the day after he had a letter in The Times cogently attacking the anti-ERM Liverpool Six. It is, of course, extremely unlikely that the government would make the Bank independent if it were forced out of the ERM. (One wit in that institution asked me: "Would an independent Bank be able to rejoin the ERM?") I am reminded of the famous protest by 364 economists after the 1981 budget. They all agreed that there

were alternatives to government policy, but did not dare say what they were, lest their apparent unity crumbled. Some of them indeed advocated joining the ERM. But you can take it that almost any imaginable economic policy - certainly one pursued by a Conservative government - would have a majority of British economists against it.

There is a case for floating rates and a case for a quasi-fixed rate arrangement, like the ERM. The virtues of both systems, as of macro-economic policies in general, are much exaggerated. But what is truly contemptible is the British habit of not being willing to stay with any set of policies, even for a short time, without hankering after another panacea.

What is it fundamentally that prevents the economy moving towards a full employment equilibrium without inflation? The answer of Keynes was that the rate of interest got stuck at too high a level. That may have had some validity in the deflationary years of the Great Depression in the early 1930s. Unfortunately, it was wrongly assumed to be true by a large part of the post-war economic establishment when the price that has been out of kilter has been that of labour.

In what conceivable sense are we in a deflation or depression, when the national income in money terms is rising by some 5 per cent per annum or more, as it is in most industrial countries, and when a 6% per cent rate of earnings increases in the UK after nearly two years of falling output and employment is regarded as a triumph of moderation? Instead of speaking as if some exchange rate regime, other than the one we happen to be in, was the clue to prosperity, economists could more usefully investigate why businesses are so keen to cut employment, but so reluctant to cut pay and prices at the slightest sign of trouble. It would be refreshing if devaluationists began their expositions by explaining that their favoured measure works, if it works at all, by reducing real wages.

If any country has the right to complain of high real interest rates imposed by the Bundesbank it is France. That country has a genuinely lower rate of inflation than Britain - 3 per cent, compared with an underlying 4.7 per cent - and therefore correspondingly higher real interest rates. Yet British opinion takes a lead in the grumbling. For Britain even to contemplate departing from the ERM while France remains is simply another instance of the devaluation urge, which has brought the pound from DM11 in the mid 1960s to under DM3 today. Each time sterling fell, there was a plausible short-term rationalisation, but the end result has been a much higher rate of inflation than Germany with no offsetting gains in output and jobs.

I am constantly being asked if there are any circumstances in which it might be right to leave the ERM, and, if I give the honest "yes" answer, to say by what date I would contemplate leaving. Such an approach would most likely lead to throwing in the towel, just before subsequent statistics show that the country was beginning to come out of recession.

There are alternatives to sticking with it, but they are a great deal worse. If you want a long-term view, do not ask a sample of economists, still less a sample of those who have made their names familiar to a wider public.

FT CONFERENCES

WORLD AEROSPACE AND AIR TRANSPORT

London, 2 & 3 September

Timed to precede the Farnborough International Air Show, this two-day meeting will bring together a galaxy of industry leaders to share their views on future policies and strategies. Speakers include: The Honorable Jeffrey Bezos of the US Department of Transportation; Sir Colin Marshall of British Airways Plc; Mr James Goodwin of United Airlines; Mr Richard Hirschfeld of Boeing Commercial Airplane Group; Mr David Hinson of Douglas Aircraft Company; Mr John Weston of British Aerospace Defence Limited and Mr Stewart Miller of Rolls-Royce plc.

RETAIL INVESTMENT REGULATION - THE NEW REGIME

London, 16 September

A timely conference arranged by the Financial Times and Financial Adviser to review retail regulation, how it will work in practice, the conduct of business in the new regime, Commission and approaches to training. Speakers include: Miss Colette Bove of the Securities and Investments Board; Mr Tom King of Standard Life Assurance Company; Mr Keith Bedell-Pearce of Prudential Financial Services and Miss Anne McMeekin of Framlington Group.

RETAILING IN THE 1990s

London, 28 & 29 September

This topical conference will review the challenges and opportunities facing retailers in a changing environment and debate strategies for future growth. Presentations by senior executives from some of the most interesting and respected retail companies will examine managing international expansion; opportunities in Eastern Europe; the importance of adding value; new distribution possibilities; meeting European consumer expectations. Speakers include Mr Geoffrey Mulcahy of Kingfisher plc; Mr Bernhard Schmidt of Spar AG; Mr Richard Anderson of Landis End and Mr Michel Bon of Carrefour.

LATIN AMERICAN CAPITAL MARKETS

London, 5 & 6 October

This high-level forum will look at the growth prospects for Latin American economies, the strengths and sustainability of economic growth. The challenges of raising new equity, issuing new debt, debt conversions as well as stock exchange reform will be reviewed. Speakers include Mr S-Shahid Husain of The World Bank; Mr José Angel Gurria Treviño of the Mexican Ministry of Finance & Public Credit; Mr James Conrow of Inter American Development Bank; Mr Nicholas Rohatyn of J.P. Morgan Securities; Mr Stephen Dizard of Salomon Brothers Inc and Mr Frans van Loon of ING Bank.

LATIN AMERICAN PRIVATISATION PROGRAMMES

London, 7 October

To assess opportunities and risks in Latin American Privatisations with presentations by Mr Eduardo Marco Medina of ENDES; Mr Juan Carlos Sanchez Amaro from the Ministry of the Economy, Argentina; Mr Audley Twiston Davies of Latin American Securities Ltd and Mr José Estenssoro of YPF, SA.

All enquiries should be addressed to: Financial Times Conference Organisation, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2523 (24-hour answering service). Telex: 27347 FTCONF G, Fax: 071-925 2125

The cost of using price to choose a computer

Alan Cane and Louise Kehoe examine the benefits and pitfalls to customers of greater competition among PC manufacturers

More than a decade after the first personal computers were soldered together in garages, it is still possible to build your own. A video cassette available through the pages of personal computer magazines explains how to build a professional-quality personal computer from readily available parts.

The do-it-yourself approach is symptomatic of a broader trend among customers from all sizes of company to choose a personal computer (PC) on price alone rather than brand name or maker's reputation.

Take, for example, Mr Tom Nelson, president of Control Manufacturing of Mesa, California, a supplier of industrial control and monitoring systems. He uses personal computers extensively in his business and buys six to eight a month for his customers. "We have switched over the past six months from buying exclusively IBM and Compaq (the high-price aristocrats of the PC business) to clone makers like Dell, Compaq and AST."

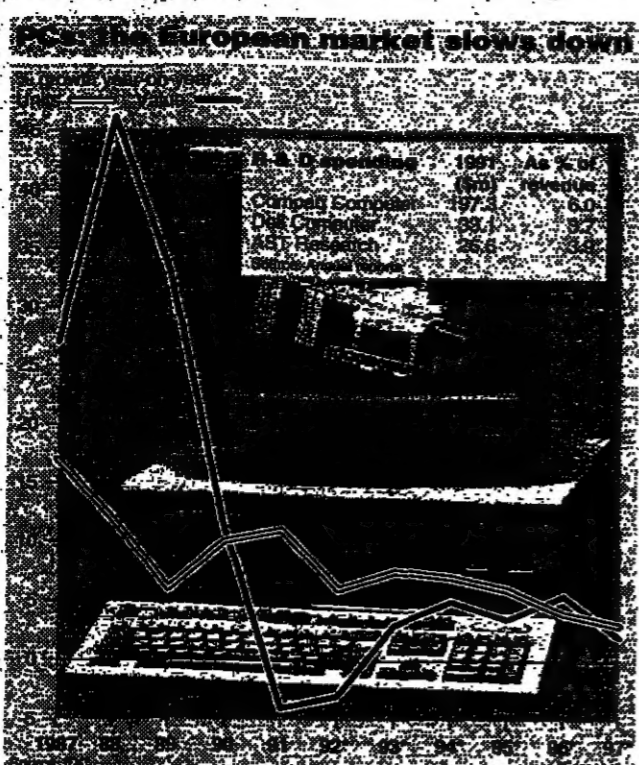
Clones make PCs functionally identical to IBM ones but they sell more cheaply by shaving profit margins and holding overheads to a minimum.

"It used to be that for a big job, the difference between an IBM or Compaq and a clone did not matter. It was a few hundred dollars in a \$100,000 contract. When the price differential got to 25 per cent, it made a big difference and our customers started asking for clones," said Mr Nelson.

His comments are graphic evidence of the unprecedented decline in the cost of personal computers. In the past 15 months alone, the selling price of PCs has fallen by between 25 per cent and 45 per cent. The trend is being driven by companies such as Dell Computer, the pioneer in selling "off-the-page" (mail order), and a myriad of computer assemblers operating in the Far East. Now, IBM and Compaq are being forced to follow suit.

A Compaq computer which sold for \$2,495 in the UK a year ago now sells for £1,395. The company had never sold a machine costing less than \$1,500 a year ago, now, its cheapest computer costs \$550. US prices are even lower.

The specification of machines on offer at cheaper than \$1,000 is extraordinary. The basic offering from the UK maker Eloxex includes a high-performance microprocessor (33MHz 386SX), vast storage capacity (50MB hard disk and 2MB of random access memory), colour monitor, together with mouse, windows and disc operating system (Dos). All of



This was state of the art a year ago; now it can be had for a mere £750 plus VAT.

In spite of prices falling for two years, they still have some way to go. Manufacturers trying desperately to match overheads to declining sales revenue, and dealers struggling with the narrowest of margins, are desperate. "It is getting worse by the week," said Mr David Southworth, managing director of P&P, one of the UK's largest distributors. "The volume is not there."

Customers should benefit from the new low prices, but the equation is more sophisticated than that. Makers and dealers insist. Computers may command commodity prices but they are not yet commodity items. Selection and installation of the right software can be complex. Operation is rarely straightforward. Setting up even the simplest network of interlinked computers requires expert skills.

The price of PCs conventionally contains an element to help pay for all this technological support. Customers paying the bare minimum for a clone of an IBM system will have none of these benefits and may have to pay through the nose to get the best out of their systems, the argument goes.

Confirmed Compaq customer, Mr Glen Sandusky, of Miller, Mason and Dickenson, a

US corporate benefits consultancy, agrees: "Price is not the main issue. We want something that works and we do not want to buy from a company that will not be around in a year or so."

"Price declines are great for corporate customers but every body cannot compete on these terms and there is going to be a shake-out."

The more sophisticated customers fear that if prices continue to fall, the big manufacturers will be forced to cut spending on research and development, so prejudicing the development of the next generation of PCs.

If prices continue to fall, the big manufacturers may be forced to cut spending on R&D

But lower prices are promoting significant changes in buying policies. Large organisations - with in-house computing departments - feel comfortable taking on responsibility for developing and maintaining their systems and are increasingly buying on price alone.

Mr Roger Wells, administration manager for the UK engineering group Brown, Root, for example, believes his company is one whose new buying policies have helped persuade IBM and Compaq to take the low-cost route. As prices have fallen, so the company has moved from rental to purchase. "We now see PCs entirely as commodities," Mr Wells said. "We are even thinking of abandoning third-party maintenance. If a machine fails we

will repair it with parts cannibalised from another." A former IBM and Compaq user, the company would be happy to buy clones, he said.

Barclays Bank, one of Europe's largest PC buyers, has also changed purchasing policy as prices have fallen. Mr Toby Broome, head of purchasing, says it is no longer prepared to buy at discounted rates only for volume purchases. "We want the same price whether we are buying one PC or 1,000. And we are not prepared to pay more than in a high-street retailer."

Smaller companies are tempted by a combination of price and support. Ms Pauline Willett, systems manager for Hacker Young, a medium-sized British accountancy firm, says the company, formerly a Compaq user, switched to Eloxex last year. It was tempted by price savings of 50 per cent and significantly better service, especially in networking.

For tiny companies, computer purchase has become more confusing as buyers must choose between a plethora of machines, all apparently similar in cost and function.

Ms Elizabeth Bryant is setting up a seminar business. A computer would make administration easier, but £3,000, the cost of an adequate system a few years ago, would have been beyond her budget. Prices now start well below the £1,500 she is prepared to spend. Unimpressed by brand names, her chief concern is to get immediate benefit from her purchase and she understands the need for support from her supplier.

Mr Martin Nielsen, managing director of The Business Superstore, the UK's latest low-cost business equipment marketing venture, believes Mr Bryant represents a substantial, unsatisfied demand for PCs among small businesses and serious home users.

He argues that lower prices broaden the market and make buying decisions easier. He also believes that if all else is equal, established brand names - at least in Europe.

His sales approach is modular; customers can buy a bare machine, adding on maintenance and other services at a price, so combining the benefits of low-cost hardware with customer support.

Yet he may be overestimating the market power of established brand names. One customer this week, looking at the array of computer power on offer at Mr Nielsen's north-west London store, agreed price falls had accelerated his decision to buy his own machine. "It will be a clone, though. A Dell or something like that."

OBSERVER

All the Prez's men

■ Don't write off board of trade president Michael Heseltine's plans to revitalise his domain. Although Norman Lamont scrapped the National Economic Development Office rather than hand it over to Hezza the Prez, close onlookers dismiss Westminster gossip that he has had his wings clipped.

Instead, Heseltine's authority in cabinet has been reinforced by a request from John Major that he join Douglas Hurd in an autumn drive to rally Tory waverrers on Maastricht.

Moreover, back at his department, Hezza is assembling a phalanx of loyal officials and high-calibre imports to show he doesn't need Treasury money to expand his power base. The choice of Walter Eltis as his chief economic adviser should not put people off the scent. It is one of the less exciting of a string of appointments designed to beef up the department's Whitehall clout.

Geoff Robinson, former IBM senior adviser, has been chosen as chief adviser on science and technology at the head of a specialist team. Sir Peter Levene, a chum from Hezza's defence days and an aide to Major on the Citizen's Charter, has returned to give general - albeit unpaid - advice.

Alistair MacDonald is back from defence procurement as chief of the new sectoral working group. The industrial competitiveness division - also central to the department's strategy to become industry's voice in Whitehall - is to be run by Bob Dobbin, returning to Whitehall after a spell on another project close to

Heseltine's heart - the Liverpool Task Force.

A further muscular mandate is being brought back from the US to reinvigorate the trade promotions office, and if Eltis still has any mates left at NEDO some of them may still be offered jobs.

Diverse though the appointments are, the inside buzz is that the new recruits have two things in common. First, they are "doers" with direct experience of their clients' interests.

Second, and more important, they're all the president's men.

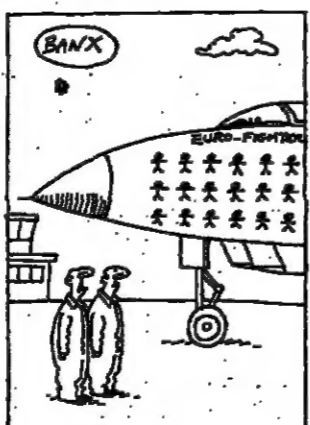
Objets perdus

■ The grandly-named Russian Ministry of Security is trying to prove to its countrymen that it has utterly renounced its past as the KGB and is now really looking after their interests. Hence it has helped to organise an exhibition of cultural contraband: Russian works of art confiscated by the KGB... - sorry, security ministry's officers from people attempting to spirit them out of the country illegally.

The official line is that the attempted smuggling - which increased sharply during the 1980s - was mainly the work of international gangs of professional smugglers, robbing Russia of works of art to sell them abroad. But there's evidence to suggest that many of the "smuggled" goods were the private property of emigrants, rather than stolen goods for sale.

Either way, the result is a fine, if eclectic, collection of icons, rare books, paintings, jewellery and other *objets d'art*. The only snag is that no catalogues are available.

There should have been, because a couple of years back a Western businessman offered to produce some free of charge, and the delighted organisers



"It's the number of jobs lost"

duly handed him the necessary photographic and written material. Alas, nothing was ever delivered.

But that wasn't the organisers' fault. How could they have known it was just another empty promise from the late Robert Maxwell?

PM nabs ex-PM

■ Lady Thatcher has never been noted for her sensitivity but even she must have realised that the idea of a former British PM working for tobacco group Philip Morris would leave some people gasping. After all, Philip Morris sold 640bn cigarettes last year, nearly 12 per cent of the world total, and is second only to the Chinese monopoly in what the anti-smoking lobby says is a lethal business.

Lady Thatcher's office was doing its best to limit the damage yesterday, emphasising that Philip Morris was also a purveyor of food, beer and other beverages, and that no contract had yet been signed. If a deal was done, however, Lady Thatcher "would give ad hoc

consultancy advice on geopolitical issues".

Nevertheless, Philip Morris is mainly interested in selling more cigarettes outside the US and the non-smoking Lady Thatcher's international experience and contacts should be invaluable. The consultancy arrangements were supposed to be kept under wraps, which leaves me wondering if Lady Thatcher has signed any other lucrative private deal with public corporations since she gave up full-time politics.

Turn off

■ Job-seekers totting briefcases with combination locks would do well to watch their conduct with same at interviews. A warning just circulated to employers by a security-conscious consultant points out that, after delving into such cases, their owners often leave them in view without bothering to scramble the opening combination.

"They have thus given the number to all passers-by for future reference," he says. "Would you trust them with anything else secure?"

At the core

■ An Englishman, a Frenchman and a Russian are arguing about the nationality of Adam and Eve. "English, of course," says the Englishman. "Where else would a man be polite enough to give his apple to a lady?"

The Frenchman insists they were French, on the grounds that nowhere else would a woman give herself to a man for the price of an apple.

No, says the Russian, they must have been compatriots of his: "Two people, no clothes, no money, nothing to eat but an apple - and they're told they're in paradise!"

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Costly place to live, even with low inflation

From Ms Elizabeth Balsom.

Sir, A big thank you to Guy de Jonghues ("The price is all right in America", July 11) for spelling out so clearly what became all too apparent to me when I returned to Britain in December 1990 after spending three years in New York - that no matter how low the headline rate of inflation falls, no matter how low the underlying rate falls, this is a very expensive country.

If I have one quarrel with his article it is that he places too much stress on the current exchange rate and the dollar's relative weakness; in my view, for a whole range of products it makes more sense to shop in the US, no matter what the exchange rate.

A couple of years ago I paid \$175 for spectacle lenses in New York. (I am very short-sighted and the lenses are thus complex.) A top chain in the UK recently quoted £150 for lenses of a comparable quality. I would love to know just why it is that British myopes must pay so much more.

I have refrained from buying a car, simply because I cannot bring myself to fork out so much more than my US friends do when they have invest in new cars. Nor will I buy compact discs in this country; it is outrageous that the sterling and dollar prices are virtually identical. This is a product that is, as far as I can fathom, international in all its dimensions - international pop or opera stars record in studios in countries all over the world, and the discs are pressed in one country for distribution worldwide. Can anyone from the record or motor industries offer an explanation, let alone a defence for the gross differences in prices?

What if all bolts going to be help kick-start the economy by going on a spending spree when I know that the same goods are on offer much cheaper elsewhere. I prefer to do without and save my money than be taken for a ride by British manufacturers and distributors.

Elizabeth Balsom,
16 Coalcraft Road,
London SW15 6LP

Air traffic control

From Mr Chris Darke.

Sir, In your article, "Airlines step up drive for EC control system" (July 16), you report the Association of European Airlines' (AEA) support for a harmonised system of air traffic control.

The British Air Line Pilots' Association supports an integrated ATC system, for our members are well aware of the air traffic problems facing Europe. With the prospect of sustained long-term traffic growth, the need to upgrade the US and the non-smoking Lady Thatcher's international experience and contacts should be invaluable. The consultancy arrangements were supposed to be kept under wraps, which leaves me wondering if Lady Thatcher has signed any other lucrative private deal with public corporations since she gave up full-time politics.

Progress has been made towards closer co-operation between governments under the auspices of the European Civil Aviation Conference (ECAC) and Eurocontrol. However, the present approach of inter-governmental co-operation has some limitations and we believe new impetus could be given if the European Commission were to play a more leading role.

Chris Darke,
general secretary,
British Air Line Pilots' Association,
51 New Road,
Harington,
Hoyes Middx

Report suggested sugar should no longer be a 'vexed question'

From Prof Donald J Naismith.

Sir, One would have thought following the Department of Health's publication some four years ago of a report by its Panel on Dietary Sugars and Human Disease, of which I was a member, that sugar would no longer be a "vexed question" (Management July 1). Apart from the undisputed role of sugar, as a fermentable carbohydrate, in the promotion of dental decay, no convincing evidence was found for a specific involvement in the causation of any other disease.

As Dr McCann points out, the brain is well protected

Transport systems must be maximised, not penalised

From Mr G Turvey.

Sir, Significantly increasing charges to road users will not, as suggested in your leader ("No revolution for British Rail", July 16), bring about a rail revolution. That revolution will only occur when railways offer their customers, both passenger and freight, efficient, reliable and economic services.

Obviously while every realistic opportunity for moving more freight by rail must be pursued, the prospects for substantially increasing the amount carried is limited. In practice increasing road charges will simply raise trans-

port and industrial costs for the vast majority of companies who have no alternative but to use road. Fuel duties sufficient actively to discourage private motoring would have to be so high as to be politically unacceptable.

The transport debate must be focused on maximising the productivity of our transport systems, not on the ways in which transport can be restricted and penalised.

G Turvey,
Freight Transport Association,
Hermes House,
St John's Road,
Sturbridge Wells, Kent TN4 9UZ

Legitimate defence

From Mr Paul Quiles.

Sir, In your edition of July 9, you published a photograph of a policeman pointing a pistol at a French truck driver at the wheel of his vehicle.

Because the caption did not make it clear, it should be said

that the policeman was not the aggressor.

The truck driver had in fact been threatening to run him down, and the policeman's action was therefore a legitimate defence.

Paul Quiles,
Minister of the Interior and
Public Security,
Place Beauvau,
Paris 8e

Tax regime change not way to promote N Sea oil construction industry

From Dr Ian Rutledge.

Sir, While wholeheartedly sympathising with the desire of Liberal MP's Russell Johnston and Charles Kennedy to preserve jobs in the North Sea oil construction industry I cannot agree with their view that it is "essential to explore whether a change in the North Sea tax regime might promote development and bring forward orders" ("300 oil jobs to be cut", July 10).

I wonder if they are aware of the extent to which the UK North Sea tax regime has already become one of the most generous in the world and that, in 1991, Petroleum Revenue Tax, the instrument which ought to be extracting the economic rent from North Sea hydrocarbon production,

has actually become negative, with repayments of £200m from the taxpayer to the oil companies. A substantial array of tax allowances (production allowance, capital "uplift", cross-field allowances etc), combined with the lowest corporation tax in Europe (and lower than the US), means that the UK is now virtually giving its oil and gas reserves away.

Our calculations show that in 1991 the government's share of the North Sea surplus had fallen to a mere 14.4 per cent and the average government "take" per barrel of oil equivalent produced was only 96 pence. Moreover, an inspection of the published accounts of oil companies operating in the UK sector of the North Sea indicates that many of them are

The best of reasons

From Mr Brian Scott.

Sir, I am sure that Mr Brian McEvoy (Letters, July 11) and your readers will wish to know the real reason for the extended journey time for trains from Bristol Parkway to London. He is wrong in claiming that the changes are designed to help us meet the Passenger's Charter targets.

The few extra minutes allowed in the summer timetable reflect the delays arising from the temporary reduction in the number of tracks available on the approach to Fiddington station, made necessary by the scheme completely to replace track and signalling.

This £40m-plus project will improve reliability and speed and open the way for a new generation of services, including the Heathrow Express electric trains. The slightly longer journey time is for the best reasons - the long term benefit of passengers. We intend to reinstate the shorter journey time next year. Brian Scott,
director,
InterCity,
125 House,
1 Gloucester Street,
Swindon SN1 1DL

currently paying no tax at all to the UK and many will continue to pay no tax well into the future. In many developing countries this would be regarded as a national scandal. Not apparently in Britain.

In his forward to the latest Brown Book on the development of UK oil and gas resources, the minister for energy remarks that "over the years a close working relationship has developed between industry and government". Surely it is time to conclude that this close working relationship has become a little too close.

Ian Rutledge,
energy/minerals economist,
SERIS,
103 Carter Knowle Road,
Sheffield S7 2DY

Pensions review needs lay views

From Mr Ralph Whiting.

Sir, As a response to the Maxwell pension scandal and prompted by the highly critical report of the House of Commons select committee, the government has set up a committee under the chairmanship of Prof Roy Goode to review the law relating to occupational pension schemes.

That the Maxwell scandal should have occurred is an indictment of the current system of law and voluntary regulation under which occupational pension schemes operate: a system about which most of the professionals involved in the pensions industry have been too complacent for far too long.

The people who have suffered from the Maxwell and similar pension fund scandals are not the professionals who make their living from running, investing and advising pension schemes, but the ordinary members of those schemes who have contributed from their pay, until very recently on a compulsory basis, in the expectation that those contributions would provide them with a secure income in retirement.

It is ironic therefore that the make-up of Prof Goode's committee, recently announced, should be heavy with pension professionals and advisers and light on lay representatives of pension scheme members and pensioners. The committee comprises two academics, a solicitor, an accountant, an actuary, an investment strategist, a life office chief execu-

tive, a retired investment manager, an industrialist, and a freelance journalist.

While I have no doubt that all the individuals named are people of integrity and intelligence, they do seem, on the face of it, to be more representative of the hitherto complacent pensions establishment than the membership of pension schemes whose interests pensions law should protect.

Noticeably absent is any representative from any trade union or pensioners' organisation who might be expected to have an understanding of the needs, requirements and expectations which ordinary members and pensioners have of the pensions schemes to which they belong but no professional position to protect.

What we cannot afford is for this review committee to close professional ranks and to come to the same conclusion as the Occupational Pensions Board did on its previous consideration of this subject in 1989. At that time the board, with the support of most of the pensions establishment, concluded that there was no case for reform. How wrong it was and how wrong will be the current committee if it comes to the same conclusion.

Ralph Whiting,
partner,
Colborne Clarke,
30 Queen Charlotte Street,
Bristol BS9 7TQ

Contracts for directors in line with risk

From Mr Nigel Dyckhoff.

Sir, With the recent cutting back of the Top Pay Review Board's recommendations for pay awards for senior public appointments ("Top public pay

rises cut to 4 per cent", July 10), much has been made of the difference in the risk/reward ratio between the public and private sectors.

While it may now be argued that this ratio, given the current economic situation, is broadly correct for the public sector, it is open to question whether in the private sector reward has not overtaken risk.

Chairmen of board remuneration committees might now begin to wonder whether, with salaries broadly equivalent to worldwide values and with well-constructed incentive schemes giving the potential for considerable enhancement, the other benefits considered appropriate for senior private sector positions should be reconsidered.

No one would grudge share options to a captain of industry - particularly as they are, as a recent correspondent suggested, "a gamble to which he or she is entitled" - nor such trappings of office as cars. However, it could be questioned whether contracts of two, three and even more years should continue to be available.

There have been many instances recently where a person who has manifestly failed has left the company with a substantial sum of money. For a shareholder, this is a questionable outcome as in the preceding years substantial remuneration will have been paid. Would it not be much more equitable if company directors and senior executives were to have the same notice and redundancy terms as any other employee in their company?

Nigel Dyckhoff,
partner in charge,
remuneration and incentive practice,
Spencer Stuart,
16 Cornmarket Place,
London W2 2ED

afflict our business executives may have their origins other than in reactive hypoglycaemia. His unusual dietary prescription is unlikely to appeal either to the workforces or to those responsible for formulating guidelines for healthy eating.

May I suggest that decisions about what should be served in the company cafeteria or executive dining room might best be delegated to the catering officer.

Donald J Naismith,
professor of nutrition
and dietetics,
King's College,
University of London

INSIDE

Hong Kong puts
bank up for sale

The Hong Kong government has placed Overseas Trust Bank (OTB) up for sale, offering foreign banks the chance to buy into the colony's lucrative banking market. OTB has 48 branches in the colony and, in the year to June 30, 1991, made a net profit of HK\$210m (US\$26m). Page 13

Japan eases up

Japan's Ministry of Finance will allow a greater range of companies to issue bonds overseas from next month. The move will ease the pressure on some Japanese companies which need to refinance equity warrant bonds issued in the late 1980s. The ministry will also loosen restraints on yen-denominated bond issues in the domestic market by foreign issuers — known as "samurai" bonds — allowing new, low-rated borrowers into the market. Page 13

Gap in bond yields

The impact of last Thursday's 0.75 percentage point rise in Germany's discount rate took time to register in the bond markets. The yield on 10-year French government bonds jumped from 8.85 per cent to 8.97 per cent, opening up the widest gap between French and German bond yields this year at nearly 90 basis points. Page 14

Power Corp passes dividend

Power Corporation, the Dublin property developer, passed its final dividend after pre-tax profits fell from £15.6m in the year 1990 to £12.4m (£22m) for the 16 months to March 31. Mr Robin Power, chairman, said the dividend was waived "because of the depth of the property and financial recession". Page 12

Jacques Vert falls into loss

Jacques Vert, the UK women's wear group, fell from profits of £3.01m to pre-tax losses of £2.81m (£5.4m) in the year to April 25. Closure and redundancy costs accounted for about half of the £1.76m exceptional charges. Page 12

Bibby bid accepted

J Bibby & Sons, the UK industrial and agricultural conglomerate, announced that its £26.2m (£164.6m) hostile bid for the leading distributor of earthmoving equipment in Spain, had been accepted. Page 12

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It is unfortunate that in the rush to offer economic advice to eastern Europe and the former Soviet Union, so little is heard from Japan. After all, Japan's post-Second World War economic performance puts most industrialised nations to shame.

A Japanese lesson for all

With its industry destroyed and cities ravaged, Japan was in 1945 in a worse economic condition than the ex-communist states are today. Some European and US experts judged recovery would take generations. Yet by the 1964 Tokyo Olympics, Japan was already on the way to becoming an economic superpower.

Moreover, Japan employed economic policies which differed significantly from those of Europe and North America. Japan put less faith than the west in market forces and more trust in government intervention. Russians and east Europeans are in danger of ignoring this experience. So is the International Monetary Fund, which is co-ordinating western economic aid for the ex-communist states.

Russians and eastern Europeans naturally find it easier to consult Americans and western Europeans than Asians. Westerners are closer, geographically and culturally. Many Japanese find Russia and eastern Europe remote and their complex political heritage difficult to understand. Also, the territorial dispute between Japan and Russia casts a shadow over any dialogue between Tokyo and Moscow.

Japanese officials have in the past been diffident about offering economic advice to other countries. Partly, this reflects a lack of intellectual self-confidence vis-à-vis westerners. Partly, officials have been reluctant to emphasise the unique points of Japanese economic development, especially government intervention. They have usually preferred to discuss the role of free markets and other similarities between Japan and the west.

However, the Japanese economic establishment is coming out of its shell. As Japan's overseas aid has grown, so has officials' willingness to direct the way the money is spent. Over the past year, Japanese officials have been involved in increasingly frank exchanges with the IMF and the World Bank. Japanese officials have questioned the US-influenced institutions' espousal of free markets as an economic panacea and suggested a more interventionist approach. In response, the World Bank has launched studies of Japanese development.

But nothing Japanese officials have done so far has been as timely as the two reports its Ministry of International Trade and Industry (MITI) presented this year to the Russian authorities. The first describes MITI's approach to economic development and the specific policies Japan followed from 1945 to the mid-1980s. The second analyses Russia's economic predicament and prescribes a policy.

MITI's researchers see as a good starting point the advice offered by the IMF which Russia has accepted as a condition of receiving the \$24bn aid promised by the Group of Seven industrialised countries. The programme commits Moscow to cutting government subsidies, reducing money supply growth, and introducing a freely-convertible currency. MITI's researchers also support

KIO set to change investment strategy

By Mark Nicholson and David Owen in London

THE KUWAIT Investment Office is changing the mix of its investments having been left with an "unbalanced portfolio" after the crisis sale of around half its assets following the Gulf war.

According to a financier with a close knowledge of the KIO — which has between \$30bn and \$35bn under management, down from a peak twice as great before the Gulf war — the London-based

body is also returning to a policy of becoming a more passive investor in companies.

In the 1980s, the KIO became known as an aggressive purchaser of big strategic stakes in politically sensitive companies, such as BP, the UK oil company, and Midland Bank. The fund has become reluctant to exceed the 3 per cent level of equity investment at which an interest in a quoted UK company must be disclosed, unless the investment is seen as an outstanding prospect.

The financier said the pressure on the KIO to reinvest funds for the rebuilding of Kuwait has eased. On the other hand, the fund does not expect to receive new injections of funds from the Gulf for at least a year.

The sell-off of investments in the past year is understood to have left the KIO with an inappropriate mix of assets. It is now turning its attention to "rebalancing" its remaining investments. Large new investment funds will not be available to the KIO

until Kuwait's oil production has returned to its pre-war level of 1.5m barrels a day — a target the government is confident of reaching early next year.

It is understood that Mr Ali Rashid Al-Rader, the KIO's new president, will oversee a relatively cautious investment strategy and avoid the sort of high-profile investment manoeuvres it has occasionally undertaken in the past. Current management is understood to be keen to avoid initia-

tives such as Enron, the Spanish chemicals group in which the KIO holds a 38 per cent stake. The KIO has been drawn into complex negotiations to rescue the group. But indications that the KIO is preparing to pump more money into Enron support the view that it is not about to extricate itself from Spain altogether.

Nor is it expected in the short term to offload large publicly disclosed equity interests such as its 9.9 per cent stake in BP.

Digital's incoming president will have his work cut out for him, writes Louise Kehoe

In the footsteps of a legend

After years of speculation and impatient grumbling within the ranks, Mr Kenneth Olsen, 68, founder and president of Digital Equipment, last week finally announced his intention to retire.

This living legend of the computer industry will leave behind a proud but troubled company. With revenues exceeding \$14bn last year, Digital is the second largest computer manufacturer in the world behind International Business Machines.

Digital pioneered the minicomputer as a cheaper alternative to mainframe computers and later moved ahead of its competitors in recognising the importance of connecting computers of different types and sizes on networks. Today, however, Digital is floundering, trying to come to terms with fundamental shifts in computer technology that have undermined its business model.

The role of minicomputers is being usurped by networks of personal computers and workstations. Also, the industry-wide trend toward "open systems", based upon industry standard software, has undercut Digital's proprietary systems.

These challenges have squeezed profit margins throughout the computer industry. But Digital has tried to respond, it offers a broad range of open systems products and has recently stepped up efforts to compete in the markets for workstations and personal computers. Yet critics, within the company and among industry analysts, say Digital resisted change for too long and in spite of job cuts the company remains grossly over-stuffed.

They blame Mr Olsen. He has ruled Digital from the day, 35 years ago, when he set up shop in a disused woolen mill in Maynard, a small New England town west of Boston.

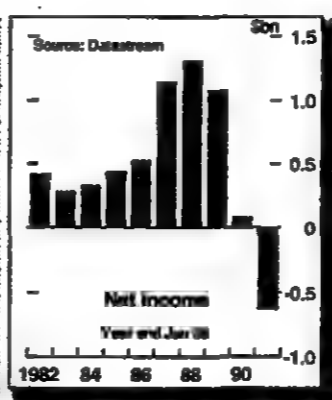
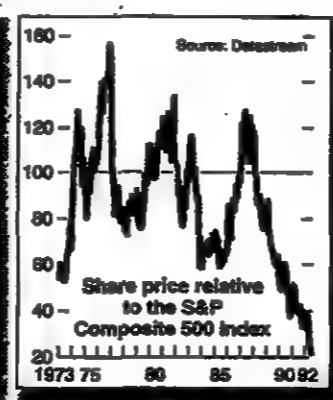
He shaped Digital with his own brand of authoritarian leadership combined with egalitarian personnel principles.

Although for years he resisted laying off workers, on several occasions he sidelined executives

Digital Equipment Corporation



Kenneth Olsen



Robert Palmer

Link to European resignation denied

MR Pier Carlo Palotti, who resigned on Friday as president of Digital Equipment's European operations, will succeed Ms Sandra Kurtzig as chief executive officer of ASE, a US software group. Mr Palotti's resignation, a day after the announcement of Mr Kenneth Olsen's retirement as president of Digital, prompted speculation that the two events were linked. According to Digital however, Mr Palotti's resignation was planned before Mr Olsen's retirement was made known.

who crossed him. Yet the tenacity with which he built Digital also proved to be Mr Olsen's failing.

Just a week ago, at an event marking the introduction of new products, Mr Olsen reiterated one of his favourite themes: the superior qualities of Digital's proprietary VMS software and the weaknesses of UNIX, the AT&T computer operating system that is at the heart of "open systems" and a key element of Digital's current product strategy.

Digital marketing executives winced when Mr Olsen tossed in remarks to "trash UNIX".

"VMS [Digital's proprietary minicomputer operating system software] was his first-born child. He adopted others along the way, but never felt the same about

them," says a Digital insider. Digital Equipment without Mr Olsen is hard to imagine. Although the prospect of his departure, on October 1, has been greeted with a sigh of relief from many Digital executives, he will be missed.

Mr Robert Palmer, 51, Mr Olsen's hand-picked successor, is a dark horse. Like most Digital executives, he has made few public statements in the past and has so far declined to discuss his future role. Digital insiders are, however, pleased by his appointment (which has yet to be confirmed by the board) and describe him as a "sharp, aggressive and determined to get Digital back on its feet".

He joined Digital in 1985. He was one of the founders of Mos-

tek, a chipmaker that has been acquired by United Technologies. Mr Palmer will take over Digital at a point where the company's route to recovery has already been mapped. Before the end of this year Digital will launch the first of a new generation of products upon which the companies hopes for the future are pinned.

Its semiconductor operations, previously headed by Mr Palmer, have developed a blindingly fast Reduced Instruction Set Computing (RISC) microprocessor, called "Alpha". Alpha will become the foundation for Digital's new product line which ultimately will span desktop computers through high performance minicomputers.

Before Mr Palmer takes over, Digital is expected to begin large-scale cost-cutting. The initiative, which could include thousands of layoffs, may be announced this week when Digital reports its quarterly results.

Digital, which employs about 116,000 people has cut more than 23,000 jobs over the past two years and closed numerous manufacturing operations. The company suffered its first annual loss

in 1991, and lost another \$404m in the first three quarters of this year. When year-end results are announced, the red ink is expected to gush again.

With Mr Olsen's departure, industry analysts expect Digital to cut overheads and focus its product strategy more clearly upon open systems. But it could take months to return Digital to profitability and the company faces heavy charges as it reshapes its operations. Analysts predict that Digital will report an operating loss of about \$200m for its fourth quarter, which ended June 30, and the company may take charges of as much as \$1bn to pay for job cuts and restructurings.

The transition to Alpha products may also be difficult. As sales of Digital's established products slow down, speeding the new products to market will be crucial. Perhaps the biggest challenge facing Mr Palmer, however, will be to follow in the footsteps of an industry legend. He needs to articulate a vision of Digital as a future technology leader rather than a company clinging to the memories of its past success.

Hanson considers buying British Coal

By John Authers in London

HANSON, the Anglo-American conglomerate, yesterday said it would give consideration to buying British Coal once any financial information on the privatisation of the coal producer is made available.

Mr Martin Taylor, deputy chairman of Hanson, yesterday confirmed the company's interest in looking at all the information the government produces for the forthcoming privatisation of British Coal.

He did not rule out offering to buy the whole of British Coal — the government's current plan is to split it into units before privatisation.

But he also made clear that Hanson, which holds a large interest in the US coal company Peabody Mining, had made no commitment to bidding for it and that no decisions could be made until all the information had been made available.

Coal mining is one of the core businesses on which Hanson intends to concentrate.

He said: "We are in the coal industry in the United States, and our obligation is to look at whatever the government says about British Coal and what it wants to privatise."

"Having looked at the terms and analysed them we would decide whether there's something which makes us want to make an investment."

In 1990, Hanson spent a month in negotiation with the government to buy PowerGen, one of the newly privatised electricity generators.

The negotiations failed, bringing down Hanson's share price, but many commentators believed Hanson's involvement had a strong effect on PowerGen's management and may also have helped the government to raise more from the eventual privatisation of PowerGen than would otherwise have been the case.

Other companies have expressed an interest in buying British Coal. They include Anglo United, which owns the Coalite smokeless fuel business and has been researching a possible British Coal acquisition since 1988, and Ryan Group, the UK's largest privately owned coal producer, which has said that it will bid for a part of the company on privatisation.

Anglo's ability to buy British Coal has been constrained by its recent financial performance, which was below earlier expectations.

Wellcome expects good news on Aids drug tests

By Clive Cookson in Amsterdam

THE FINAL phase of Wellcome's international share offer is expected to coincide with positive news for the company's anti-Aids drugs.

The results of clinical trials involving the company's AZT drug Zalcitabine, which still has a virtual monopoly of the Aids drug market five years after its launch, will be given later this week at a world conference on Aids, taking place in Amsterdam.

Hopes are high that a study to be released by Prof David Cooper of the University of New South Wales, Australia, will provide new evidence that AZT helps delay the onset of Aids symptoms in people infected with HIV, the virus that causes the disease. Wellcome needs such evidence to expand AZT sales.

Another study is expected to show that a combination of Wellcome's two best-selling drugs — AZT and Acyclovir, which is normally used to treat herpes infections — can prolong the life of people with advanced HIV infection. Other conference sessions will show that the level of medical concern about AZT's side-effects is declining. Although the drug is still controversial, it is becoming established as a reliable Aids treatment.

Few of the exciting leads on Aids treatment discussed at previous world Aids conferences have come to anything. The handful of promising new treatments mainly give their best results in combination with the Wellcome drug.

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A. H. Ball Group PLC

(Incorporated and registered in England and Wales — No. 1823753)

Acquisition of K.D. Process International Limited
Placing of 1,846,000 new Ordinary shares
at 122p per share
and
Introduction to the Official List

Authorised Following the Acquisition and Placing		Issued and Fully Paid Following the Acquisition and Placing	
Present	£	Present	£
430,000	625,000	327,250	453,976
Number		Number	
8,400,000	12,500,000	6,545,000	9,079,524

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Hill Samuel Bank Limited, 100 Wood Street, London EC2P 2AJ
A. H. Ball Group PLC, Tilford Road, Farnham, Surrey GU10 3QT
Barclays Registrars, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU
20th July, 1992

COMPANIES AND FINANCE

Sanyo to postpone memory chip production

By Louise Kehoe

SANYO Electric is to postpone mass production of four-megabit dynamic random access memories (D-rams) because of sluggish market conditions, the company announced.

Although the Japanese electronics company has never been a leading D-ram producer, its decision to scale back its involvement signals a trend among Japanese semiconductor producers who are increasingly disenchanted with the D-ram business.

Industry analysts expect several major D-ram producers to follow Sanyo's example and back away from the volatile memory chip market.

Last week Sanyo reported an 83.5 per cent drop in consolidated pre-tax profits to ¥3.34bn (\$26.8m) in the half year to May.

D-ram prices have slidded over the past year in the face of mounting competition from South Korean producers and sluggish demand from the recession-bound computer industry.

The situation facing Japanese D-ram producers is reminiscent of that encountered by US producers in the mid-1980s when most US companies abandoned the market.

Sanyo said that it would continue to develop higher capacity D-rams to keep pace with advances in semiconductor production technology.

Ansett may seek third partner

THE TWO shareholders of the Australian airline Ansett Transport Industries might take in a partner, said Mr Ken Cowley, Ansett joint chairman and joint chief executive, Reuters reports from Sydney.

Mr Cowley said News Corp and TNT might seek an investor with international airline experience in response to deregulation of the airline industry. "We'll have to wait and see if we do take in a partner and who that partner is, and what their visions of growth would be," Mr Cowley said in a television interview.

He shares the positions of Ansett chairman and chief executive with Sir Peter Abeles, TNT managing director. Mr Cowley, also a News Corp executive director, replaced Rupert Murdoch last Friday as Ansett joint chairman and chief executive.

Reichmann family sells jet for \$7m

By Bernard Simon in Toronto

THE Reichmann family has sold its Gulfstream executive jet to help pay the debt restructuring costs of Olympia & York.

The latest report on the ailing developer's finances compiled by auditors Price Waterhouse says the jet, which fetched US\$6.8m, was owned by a private Reichmann company outside the court protection order granted to O&Y and its Canadian subsidiaries two months ago.

O&Y is restructuring the bulk of its C\$13.5bn debt (US\$11.4bn). Only its US operations remain outside the protection of bankruptcy

Hong Kong puts bank up for sale

By Simon Holberton in Hong Kong

THE Hong Kong government has placed Overseas Trust Bank (OTB) up for sale, offering foreign banks a rare opportunity to buy into the colony's lucrative banking market.

A government spokesman said the time was ripe to return the bank to the private sector. "It has been restored to health and should be able to perform with results comparable to other banks of its size."

OTB has 48 branches in the colony and, in the year to June 30 1991, made a net profit of HK\$210m (US\$27.7m). It is expected to fetch more than HK\$1.5bn.

OTB was rescued by the Hong Kong government in 1985 after investigators discovered widespread fraud and false loans totalling US\$90m on its books. In June 1991 it still had accumulated losses of HK\$2.15bn.

It used to be the colony's third largest listed bank after

Hongkong Bank and Hang Seng Bank, but is now comparable to the colony's two smallest listed banks Wing Lung and Dah Sing.

Over the past months several local banks have expressed interest in buying OTB. Foremost among these is Dao Heng Bank, the banking subsidiary of the Guoco Group, Dah Sing, and Xiamen International Bank, owned by the provincial government of Fujian in China. But the proposed sale also represents one of the few

opportunities for a foreign bank to acquire banking assets in Hong Kong. Retail banking, which is regulated by a cartel, is very profitable and OTB is in the top five in terms of size of branch network.

It would also offer a foreigner a base from which to build business in China. This is restricted mainly to cross-border loans and trade finance but with the financial liberalisation under way in China there may be opportunities to expand further.

Tokyo eases bond issuance limits

By Emiko Terazono in Tokyo

JAPAN'S Ministry of Finance will allow a greater range of companies to issue bonds overseas from next month, in a move which will ease the pressure on some Japanese companies which need to refinance equity warrant bonds issued in the late 1980s.

The ministry will also loosen restraints on yen-denominated bond issues in the domestic market by foreign issuers - known as "samurai" bonds - allowing new low-rated borrowers into the market.

Both moves are in line with government proposals earlier this year to eliminate limits on corporate bond issuance, allowing a broader range of companies to raise funds.

The easing of limits will create an alternative funding method for weaker Japanese companies needing to refinance repayments on equity-

linked issues. The slump in the Tokyo stock market has dried up sources of equity-linked financing.

Moreover, Japanese banks, faced with increasing bad loans and the need to meet international capital-to-assets ratios, are setting tougher standards on loans.

From next month, Japanese companies with a single-A credit rating or higher will be able to issue straight bonds denominated in a foreign currency, yen bonds issued in the Eurobond market and warrant bonds. A rating of triple-B, the lowest investment grade credit rating, will be the minimum requirement for a company to issue yen-denominated convertible bonds.

In addition, numerical standards on net assets, dividends and profits will also be eased. Bank-guaranteed bonds with warrants, straight bonds and warrant bonds guaranteed by a

parent company are also subject to easier requirements.

For samurai bonds, foreign borrowers or international organisations with an investment grade credit rating will be able to access the market.

Currently, the issuance in the Samurai market is limited to foreign organisations with ratings of single-A or higher, or with a triple-B rating and a government guarantee.

Ministry officials said the move was aimed at increasing domestic capital outflow abroad.

However, the easing of restrictions comes when many Japanese investors are looking to decrease investment portfolios rather than expand.

Many face large losses on investment portfolios due to the sharp decline in share prices, and the decline in profits due to the economic downturn is squeezing cash flow.

CP Forest loss rises to C\$60m in quarter

By Robert Gibbens in Montreal

CANADIAN Pacific Forest Products, one of Canada's largest pulp and paper groups, blamed weak pulp, newsprint and fine paper markets for continued heavy losses in the second quarter.

The second-quarter loss deepened to C\$59.5m (US\$50.42m), or C\$1.13 a share, against a loss of C\$56.4m, or C\$1.23, a year earlier, on sales of C\$462m, against C\$502m.

A lower Canadian dollar and severe pruning of costs were not enough to offset depressed product prices, the company said.

The half-year loss was C\$130.6m, or C\$2.59 a share, compared with C\$106.5m, or C\$2.42, a year earlier, on sales of C\$892m, against C\$891m.

QCH

QUALITY CARE HOMES PLC

(Incorporated in England and Wales under the Companies Act 1985)
(Registered No: 2003672)

PLACING BY Beeson Gregory Limited

of 3,602,941 ordinary shares of 10p each at a price of 138p per share payable in full on application

Share Capital

Authorised
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In ordinary shares of 10p each

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QCH is a substantial provider of nursing care for the highly dependent elderly and is based in the North East of England. QCH currently owns and operates 11 freehold nursing homes with a total of 540 registered beds.

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Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4EY

Quality Care Homes PLC
1 Norton Court
Stockton-on-Tees
Cleveland TS20 2BL

A Member of the Securities and Futures Authority

20 July 1992

Particulars of QCH are included in the Companies Fiché Service available from Exel Financial Limited, 37-45 Paul Street, London EC2A 4PB.

UK bank named manager of Japanese pension fund

By Simon London

SCHRODER Investment Management, the fund management arm of the UK merchant banking group, has become the latest overseas firm to win pension fund management business in Japan.

The firm has been appointed to manage ¥3bn (\$24m) by Japan's third largest pension fund, the Public School Teachers Mutual Aid Association.

It becomes the third overseas manager to manage assets for the teachers' fund, joining Jardine Fleming and Merrill Lynch.

Although the three overseas firms manage only a small portion of the fund's \$41bn assets, the appointment of Schroders underlines the gradual progress being made by overseas managers in Japan.

However, despite the partial deregulation of the pension fund management business, overseas managers can only be allotted new money flowing into pension funds.

Existing assets must remain in the hands of the trust banks and insurance companies which dominate the industry.

Moreover, while public sector funds are slowly opening up to foreign investment managers, private sector companies have been more conservative.

Earlier this year, Nagasaki, the retailer, became the first private sector company to appoint a foreign-based fund manager, allotting ¥1bn of its ¥23.7bn pension fund to Invesco MIM.

In June, Hitachi, the electronics group, followed suit, appointing Invesco MIM and Mercury Asset Management.

courts. Lenders are in the unenviable position of seeing some of the income from O&Y properties previously earmarked for debt-service payments now being funnelled into the company's administrative and restructuring costs.

According to the Price Waterhouse report, restructuring costs - consisting mainly of fees to lawyers and accountants - will total C\$9.3m in July and August alone. All debt-service payments have been frozen.

Price Waterhouse, one of whose partners is acting as O&Y's information officer, projects the developer's Canadian operations will have a cash outflow of C\$8.3m in July and

another C\$5.3m in August. Under a court order granted earlier this month, the shortfall will be funded as far as possible from the sale of unencumbered assets.

The information officer said he expected O&Y's first-quarter results, for the three months ended April 30, to be released in early August. The results are likely to include a large writedown on O&Y's investment in the Canary Wharf project in London's Docklands, which is currently valued at C\$3.6m.

The Reichmanns' entire equity in O&Y has already been wiped out with writedowns totalling C\$1.4m in the fiscal year to January 31 1992.

Correction Notice of Early Redemption

To the Holders of

TRIBUNE COMPANY

US\$100,000,000

10 1/4% Notes Due September 9, 1995

NOTICE IS HEREBY GIVEN that, pursuant to Section 6(a) of the Fiscal and Paying Agency Agreement dated as of September 9, 1985, Tribune Company has elected to and shall redeem on September 9, 1992 (the "Redemption Date") all of the outstanding Notes, at a redemption price equal to 101 1/4% of the principal amount thereof (the "Redemption Price").

The Notes shall become due and payable on the Redemption Date at the Redemption Price which shall be paid upon presentation and surrender of the Notes together with all Coupons thereto appertaining maturing after the Redemption Date at the Paying Agents listed below.

The Notes will no longer be outstanding after the Redemption Date and interest on the Notes will cease to accrue from and after the Redemption Date and the Coupons for such interest shall be void. On and after the Redemption Date the sole right of a holder shall be to receive the Redemption Price.

FISCAL AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
1040 Brussels

Morgan Guaranty Trust Company of New York
Mainzer Landstrasse 46
6000 Frankfurt am Main

Morgan Guaranty Trust Company of New York
14 Place Vendôme
Paris

Amsterdamsche Bank NV
Herengracht 595
PO Box 1220
Amsterdam

Banque Générale de Luxembourg SA
14 Rue Aldringen
L-2951 Luxembourg

TRIBUNE COMPANY

By: Morgan Guaranty Trust Company
as Fiscal Agent

Dated: July 20, 1992

TransAtlantic Holdings PLC

(Incorporated in England and Wales under the Companies Acts 1948 to 1976, registered number 1503621)

Introduction to the Official List of the London Stock Exchange in the life insurance category

Expected date of listing 30th July, 1992

sponsored by

S.G. Warburg Securities and S.G. Warburg & Co. Ltd.

Share Capital

Following the expected allotment and issue of 25.8 million Ordinary Shares and 63.6 million 'B' Convertible Preference Shares on 30th July, 1992 in connection with the merger of TransAtlantic Holdings PLC and Capital & Counties plc, the authorised and issued share capital of the Company will be as follows:-

	Authorised £m	Issued and fully paid £m	Number
Ordinary Shares of 50p each	201.1	146.4	292,845,509
'A' Convertible Preference Shares of 50p each (yielding 6% p.a. based on an issue price of £4 per share)	15.3	15.3	30,575,919
6% 'B' Convertible Preference Shares of £1 each	63.6	63.6	63,637,024

The Ordinary Shares have been listed on the Luxembourg Stock Exchange since 1987 and the 'A' Convertible Preference Shares since May 1990.

Business

TransAtlantic is an investment holding company incorporated in the United Kingdom, whose business is the making of selected investments with long term potential in the life insurance and property sectors and in other fields related to the financial services industry, predominantly, but not exclusively in the United Kingdom.

Listing Particulars

Listing particulars relating to TransAtlantic will be included in the Companies Fiché Service available from Exel Financial Limited, 37-45 Paul Street, London, EC2A 4PB from 3.00 pm on 21st July, 1992. Copies of such particulars will be available during normal business hours on any weekday, Saturdays and Bank Holidays excepted, up to and including 3rd August, 1992 from:-

TransAtlantic Holdings PLC
40 Broadway
London SW1H 0BT

S.G. Warburg & Co. Ltd.
2 Finsbury Avenue
London EC2M

Copies of the listing particulars will also be available to the public from the Company Announcements Office of the London Stock Exchange, Old Broad Street, Capel Court Entrance, off Bartholomew Lane, London, EC2N 1HP, for collection only, on 21st July and 22nd July, 1992.

20th July, 1992

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Yields rise on Bundesbank move

GILTS lost ground due to widespread worries about possible Bundesbank moves later this year to push up German interest rates, possibly leading to a tightening of monetary policy across Europe.

The concerns spilled over into the bond markets on Friday, with German government securities (bunds) seeing significant price falls and the effects spilling over to gilts.

During the week, yields on short-dated UK securities climbed by up to 0.2 percentage points (20 basis points), reflecting the reduced prices. The yield increases were less marked for longer maturing bonds.

The Bundesbank's decision on Thursday to increase its discount rate by an above-expected 0.75 percentage points was the main trigger for the increased gilt yields.

While the German central bank resisted the temptation to increase its more internationally important Lombard rate - this staying at 9.75 per cent - a move along these lines cannot be ruled out

over the next few months.

Accordingly, the UK money markets were convulsed with speculation on Friday that base rates may have to rise by the end of the year because of the effects of a Lombard rate increase on the level of sterling in the exchange rate mechanism.

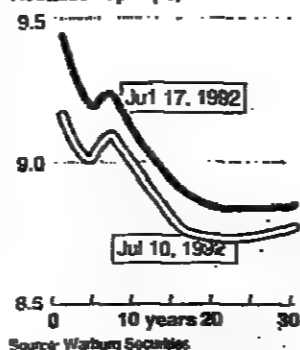
The Bundesbank move over-shadowed good news on UK inflation earlier in the week which had driven gilt prices higher. The index of average earnings across the economy rose in the year to May by an underlying 6.5 per cent, after 7 per cent in April and 7.5 per cent in the previous month.

While the level of price increases for manufactured goods in the year to June remained at 3.6 per cent, the same as in May, factory output fell by 0.5 per cent in May compared with April, indicating weak demand and a continuation of the recession.

Meanwhile, Britain's public sector borrowing requirement jumped to a higher than expected £4.23bn last month as the

UK gilts yield

Rebased at par (%)



Source: Walling Securities

recession depressed government revenues and boosted spending.

It brought the total borrowing requirement in the first three months of the 1992-93 financial year to £10.8bn, fueling fears that the government will not be able to keep borrowing within its £28bn target.

That is likely to have repercussions on the gilt market - which fears higher gilt issues will depress prices and

push up yields.

In the context of ways of managing the high PSBR, an intriguing suggestion has come from Mr Roger Bootle of Greenwell Montagu, a leading gilt broker, on how the Treasury could both help economic recovery and get the gilt market out of its difficulties. Mr Bootle says that rather than fund all the PSBR - which Greenwell expects this year to reach £33bn - via gilt issues the government should deliberately underfund. That boils down to financing the deficit partly by sale of short-term Treasury bills, which feed into the money supply and boost economic activity. By reducing gilt issues, such an option would also put a floor under prices. According to Greenwell's arithmetic, total gilt issues this year under full funding would need to be £35bn. By under-funding by £10bn, that would release £10bn into the economy to stimulate growth.

Peter Marsh

GERMAN BONDS

Ground trembles beneath the ERM

ON the Richter scale of seismic disturbance in the bond markets, the impact of last Thursday's 0.75 percentage point rise in Germany's discount rate took time to register.

Other European bond markets even managed a spontaneous half-hearted cheer of a rally in their relief that the ground had not shaken harder. But by the end of Friday, the subterranean after-shocks set off by the Bundesbank's action had given a thorough shake to the foundations of the exchange rate mechanism.

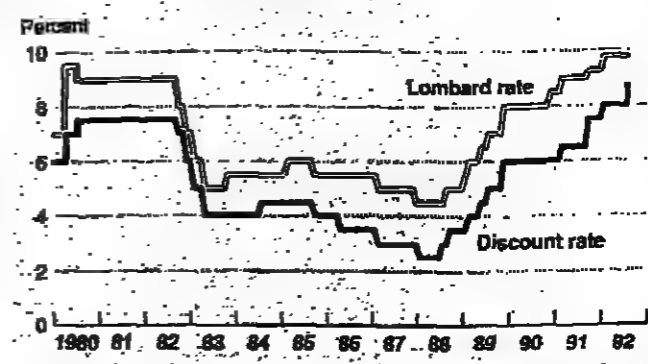
The shudders were not only felt in bond markets at the outer margins of the ERM. The yield on 10-year French government bonds jumped from 8.85 per cent to 8.97 per cent, opening up the widest gap between French and German bond yields this year at nearly 90 basis points.

French bond prices, of course, reflect the other great fear that stalks the markets: that French voters will say "non" in September to Maastricht proposals for economic and monetary union, and put a bomb under the seemingly inexorable convergence of bond yields across the EC.

With German monetary tightening acting as another turn of the screw on the hard-pressed economies of its neighbours, that vote may have become a little more likely.

The tremor that passed through the markets on Friday was felt equally strongly from southern Europe to Scandinavia.

German interest rates



Source: Chase Bank

via. Spanish bond prices, which had nose-dived by Thursday to their lowest for some time, took one look over their shoulder and kept on going. Ten-year bond yields, which had leapt to 11.80 per cent on Thursday, jumped further to 11.83 per cent.

Italy's monetary authorities may have earned plaudits in the market for acting decisively to raise the country's discount rate by 0.75 percentage point on Thursday (the second rise in a fortnight) but it did not insulate Italian bonds from the rout. Net yields on 10-year bonds followed those of their Spanish counterparts, moving up from 11.75 per cent to 11.82 per cent.

The ripples beyond the immediate confines of the ERM bloc extended to Sweden, where 10-year bond yields ended the week at 10 per cent, around 10 basis points up on

the week, although Finland escaped the worst of the slide. A currency swap agreement between Finnish and other European central bankers, designed to underpin the Finnish currency and fortuitously announced on Wednesday, left yields by the end of the week firmer at just under 13 per cent.

The sharp drops of Friday took place against a background of thin trading in cash markets, with investors either already on holiday or too nervous to act. Most are only likely to shake off the paralysis when they feel they know the answer to one question: what will the Bundesbank do next?

The narrowing of the gap between the discount and Lombard rates to 1 percentage point has been interpreted by some as a sign of pressure for another Lombard rate rise. However, as the graph shows,

the gap between the two has been narrower in the past, particularly when the interest rate environment changes quickly.

Certainly there were no hints on Friday of further stringency. The gap between three-month and 10-year German interest rates, at 180 basis points, is already as great as at any time recently, but there was no indication of short-term interest rates creeping up, further inverting the yield curve.

"The Bundesbank is relieving tensions in the money markets," said Mr Klaus Baader, economist with UBS Phillips & Drew in London, on Friday. "A Lombard rate rise certainly isn't programmed into the markets yet." Mr Baader summed up the mood of most investors and analysts: "German monetary policy is very finely balanced between tightening and easing."

Some clue could come this week, with the latest inflation and money supply data. Market observers are looking for a sharp fall in the headline inflation rate from its 4.3 per cent level, while M3 growth is expected to ease from the 8.7 per cent recorded for May. If the market's expectations are disappointed, fears will intensify that the Lombard rate will be raised later in the summer. And with the French preparing to vote on Maastricht, that really would make the earth beneath the bond markets move.

Richard Waters

US MONEY AND CREDIT

News-packed week gives food for thought

ON Friday last week the short-end of the Treasury market enjoyed a short but sharp rally on rumours that President Bush was afflicted by serious health problems.

Although the rumours turned out to be false (as they almost invariably do - in Chicago, they have a saying that the President of the US dies once a month on the floor of the futures exchange), it showed how jumpy the market was at the end of what had been an unusually busy and news-packed week.

Thursday's increase in German interest rates was probably the biggest story because of its international dimensions and the effect the Bundesbank's move had on the vulnerable dollar. The German rate rise was open to interpretation in two ways: it was bullish for Treasuries because higher German interest rates will slow down European, and ultimately US, economic growth, which is good for bonds; or it was bearish for

Treasuries because with higher German interest rates pushing the dollar lower, the Federal Reserve will be less likely to sanction another cut in US interest rates for fear of sending the already weak US currency into a tailspin.

There were a few other stories for the markets to feed on last week. Mr Ross Perot's sudden and unexpected withdrawal from the election race was generally well-received, not because of any particular dislike for the diminutive Texan billionaire, but because his departure removed a large element of political uncertainty that had been troubling US financial markets for months.

The Democrats' successful convention in New York, and Governor Bill Clinton's surge in the polls after the Perot withdrawal provided further food for thought, food that the markets found less than palatable, given their concern for what the Democratic candidates might, if elected, do to the Fed-

eral budget deficit with his ambitious spending plans.

As Mr David Ader, senior fixed-income analyst with Technical Data in Boston said recently: "One of the significant factors contributing to the steepening of the Treasury yield curve is this week's Democratic convention. While the Democrats scream 'Jobs! Jobs! Jobs!' the Street only hears 'Spend! Spend! Spend!' and backs off."

Friday morning's trade figures were also worthy of the bond market's attention. The bigger-than-expected \$7.4bn May trade deficit was partly explained by a 2.5 per cent decline in exports (imports also fell, but less sharply).

With exports now down three months in a row, there is little doubt that economic growth in the second quarter will eventually come out well below the 2.7 per cent achieved in the first three months of the year. In this respect, the trade numbers were a positive for Treasuries.

As for this week, in the absence of valuable statistics other than the notoriously volatile and unreliable advance durable goods orders, due on Friday, the bond market is likely to focus on Congress, where Mr Alan Greenspan, the Federal Reserve chairman, will be giving his twice-yearly Humphrey-Hawkins testimony.

Mr Greenspan, as always, is unlikely to give away anything that would move the markets, but he will at least be asked to outline the policy thinking behind the big cut in interest rates earlier this month.

At the time the rate cut was seen as a panicky response to the dreadful June employment numbers, and by less charitable observers as a caving in to political pressure from the White House, but Mr Greenspan's views on the current state of the economy, and on whether he believes the Fed has finished easing, should make interesting hearing.

Patrick Harverson



Increased business in adverse circumstances

BUSINESS UP BY MORE THAN 5%

In 1991, a particularly difficult year for property, Crédit Foncier and its subsidiaries managed to increase the total production of their loans by more than 5%, to FF 38.6 billion. Private credit business remained at a high level, with new loans amounting to FF 24 billion, as a result of the development of mortgage loans to individuals and loans to local authorities. On the other hand, there was a reduction in new loans to developers, in view of the current economic climate and the selective policy of the Company. The production of subsidized loans was 21% up on 1990, to FF 14.7 billion, mainly due to technical reasons.

This performance, which was achieved in a contracting business environment, is the result of the sustained efforts of Crédit Foncier and its subsidiaries to widen their activities. The private loans sector thus represented 62% of total new credit business in 1991, the outstanding loans of the private sector business is making steady progress and now accounts for 23% of the total loans portfolio, which in 1991 was more than FF 300 billion.

Outside France, Crédit Foncier Group continued to develop its operations in collaboration with its European subsidiaries. This network was strengthened by the establishment of a new subsidiary in the Netherlands and the opening of an office in Portugal.

FAVOURABLE FINANCING CONDITIONS

The Group was able to raise capital under favourable conditions by taking advantage of the drop in long-term rates. The volume of long-term borrowing on the various markets increased substantially, with FF 24.5 billion raised in funding, compared with FF 16.2 billion in 1990. The top marks awarded by the two main international rating agencies reinforced the Company's position on foreign markets. Finally, in November 1991 Crédit Foncier successfully launched the first French issue of mortgage-backed securities.

RESULTS

With difficult circumstances for property, provisions were substantially increased, in line with Crédit Foncier's policy of caution. Consolidated net income, Group share, amounted to FF 521 million against FF 698 million in 1990. Real estate market conditions were such that property sales were reduced, leading to a decline in real estate gains.

DIVIDENDS UP BY 4.2%

Shareholders are entitled to a unit dividend of FF 37.50 in shares. As last year, they can opt to convert this dividend into shares. In 1990, approximately 70% of shareholders chose this option. A FF 18.75 tax credit is added to the FF 37.50 dividend, bringing the total income per share to FF 56.25, up by 4.2%. Taking into account the issue of new shares at the last share-payment of dividends, the total distribution has reached FF 369.8 million an increase of 6.9%.

PROSPECTS FOR 1992

In the first months of this year, Crédit Foncier and its subsidiaries strengthened the competitiveness of their products. Although the economic climate remains difficult, new loans increased by more than 15% over the first four months. On the basis of the mid-year figures, the Group's performance in 1992 should be satisfactory, with particular emphasis being placed on selectivity of commitments.

New long-term funding, which should be in the region of FF 35 billion for 1992, should be achieved under favourable conditions. In this respect, Crédit Foncier's standing enables the Group to take advantage of market opportunities and develop an ambitious issuing strategy. At the beginning of May, the Group chose to issue a 3 billion repackaged perpetuals financing operation at a particularly attractive price, which as quasi-equity will allow the solvency ratio to be brought up to 9%.

Crédit Foncier will continue to pay particular attention to controlling costs and risks and to consolidating its diversification in France and the rest of Europe.

Crédit Foncier: Votre allié dans le temps.

FT/ISMA INTERNATIONAL BOND SERVICE									
ISIN	Country	Par	Yld	Chg	Vol	ISIN	Country	Par	Yld
US 1010101	USA	100	10.00	+	100	US 1010101	USA	100	10.00
US 1010102	USA	100	10.00	+	100	US 1010102	USA	100	10.00
US 1010103	USA	100	10.00	+	100	US 1010103	USA	100	10.00
US 1010104	USA	100	10.00	+	100	US 1010104	USA	100	10.00
US 1010105	USA	100	10.00	+	100	US 1010105	USA	100	10.00
US 1010106	USA	100	10.00	+	100	US 1010106	USA	100	10.00
US 1010107	USA	100	10.00	+	100	US 1010107	USA	100	10.00
US 1010108	USA	100	10.00	+	100	US 1010108	USA	100	10.00
US 1010109	USA	100	10.00	+	100	US 1010109	USA	100	10.00
US 1010110	USA	100	10.00	+	100	US 1010110	USA	100	10.00
US 1010111	USA	100	10.00	+	100	US 1010111	USA	100	10.00
US 1010112	USA	100	10.00	+	100	US 1010112	USA	100	10.00
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US 1010114	USA	100	10.00	+	100	US 1010114	USA	100	10.00
US 1010115	USA	100	10.00	+	100	US 1010115	USA	100	10.00
US 1010116	USA	100	10.00	+	100	US 1010116	USA	100	10.00
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US 1010232	USA	100	10.00	+	100	US 1010232	USA	100	10.00
US 1010233									

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

NatWest to be first UK bank to securitise loans

NATIONAL Westminster Bank's announcement that it will sell part of its corporate loan book through the US securities market could mark the start of a new phase of innovation by European banks.

The technique, called securitisation, is by no means new to European financial institutions. Mortgage lenders have been securitising home loans since the early 1980s - the sterling mortgage-backed bond market amounts to around \$10bn.

Other financial assets such as car loans have also been repackaged and sold in the form of securities. However, NatWest will become the first UK bank to securitise loans to companies. According to experts in structured finance, other types of financial asset will be securitised soon in Europe.

"Mortgage lending has slowed dramatically so there is less pressure to securitise mortgages. Banks are turning their attention to securitising other types of asset," commented Mr Steve Din, structured finance analyst at Standard & Poor's, the credit rating agency, in London.

Other than commercial bank loans, trade receivables - debt owed to non-bank companies in the normal course of trading - and leases are the most likely candidates for securitisation.

Earlier this year GPA, the aircraft finance company which recently cancelled its planned flotation,

made a pioneering issue of bonds backed by aircraft leases.

Securitisation of leases on "small ticket" items - anything from coffee machines to photocopiers - is also possible.

On April 30, the Bank of England issued new regulations for the securitisation of credit card receivables, opening the way for banks to securitise another category of risk assets.

The theory behind securitisation is simple: risk is transferred from the holder of a financial asset, such as a loan or a lease, to the holders of securities backed by that asset.

Since the risk is transferred, the original lender can remove the asset from its balance sheet. In addition, it raises cheap finance by issuing secured bonds which can be used to fund new loans.

The drawback is that securitising assets is a complex and expensive process. The NatWest structure involves a Delaware-based special purpose vehicle buying sub-participations in corporate loans from the bank, via a Cayman Islands subsidiary. The special purpose company, Thames Funding, will then issue commercial paper backed by the loans.

It is a matter for debate whether corporate borrowers should be concerned that their loans are being securitised.

NatWest said last week that informal discussions with companies revealed no objections to the idea.

After all, banks already sell loans in the secondary market - in Europe usually by selling sub-participations to other banks. The NatWest securitisation works on the same principle, except that the risk is transferred one stage further by the issue of asset-backed commercial paper.

However, not all corporate treasurers take a favourable view of either the secondary market in loans or securitisation. Some large UK companies specify in their terms of borrowing that the lender must not sell sub-participations to other banks.

One concern is that the company can end up dealing with a large number of banks which it did not even know were lenders.

"A company goes to a big bank because it wants a relationship. If sell-down isn't handled very carefully a simple bilateral loan can come to resemble a complex multi-option facility," said the treasurer of one large UK industrial company. Although the commercial paper issued by Thames Funding will be issued in the US and is denominated in dollars, NatWest has the option of securitising loans made in sterling or other European currencies, so long as the currency risk is fully hedged.

Loans to up to 10 nominated companies can be securitised through Thames Funding, although NatWest does not intend to announce which companies are involved.

The commercial paper has been rated A-1 by S&P and P-1 by Moody's Investors Service, on the grounds that all of the 10 companies in the securitisation pool also carry this top short-term rating.

This suggests that NatWest will choose to securitise low margin loans to big corporations, liberating capital to make new loans at a higher margin.

There are some complications. For example, if a company repays one of the loans early, NatWest must bridge the gap until the matching commercial paper is received.

The maximum maturity of commercial paper under the programme is 95 days, so in the worst case NatWest might have to pay interest on CP for three months while receiving no income from the underlying loan.

Despite the cost of setting up the structure and some of the hidden risks, NatWest concluded that securitising corporate loans was worth the investment. Faced with similar circumstances, other European banks are likely to reach the same conclusion.

Certainly every UK clearing bank has a team of corporate financiers looking at securitisation.

It is easy to see why. By taking securitised assets off balance sheet, banks are able to make more loans. Since the risk has been transferred to bond holders, capital which backed the securitised loan is free

to back new lending.

National Westminster has a capital-to-assets ratio comfortably above the 8 per cent level demanded by international banking regulations. However, capital has become a scarce commodity. In the longer term, securitisation looks likely to become an important method of balance sheet management for banks.

Regulators appear happy with the technique, so long as there is no danger of securitised assets unexpectedly returning to the balance sheet.

Accountants are less sure. Last October, the UK Accounting Standards Board proposed that securitised assets should not be taken off balance sheet where the original lender retains an "economic interest" in the loans.

Such a ruling would cover nearly all securitisations, since the originator of the loan does maintain a clear economic interest - through its continued relationship with the borrower and the administration of the loan, usually for a fee.

The ASB admits to receiving a great deal of adverse comment. It will put forward further proposals in the autumn.

But whatever it decides, UK banks are looking hard at the economic case for securitisation and starting to conclude that the long-term benefits outweigh the immediate costs.

Simon London

Anthony Harris

A new twist to ease the slump



When two doctrinal opponents agree that a simple tactical change could at the same time support sterling, encourage investment and reduce government spending, their argument surely deserves official attention.

It seems unlikely to get it, though, because it runs against fashionable theory, and breaks one of the government's self-imposed rules.

This proposed trick is simply under-funding the public sector borrowing requirement - selling bills to the banks rather than gilts to the pension funds.

Last week Mr Roger Bootle of Midland Montagu argued for it. Professor Tim Congdon has been promoting it for a long time past. Prof Congdon is a monetarist Liverpool Sixer, Mr Bootle a pragmatic supporter of the ERM, and this may be the first time they have agreed on anything. And their proposal has another merit which they both overlook.

Mr Bootle's main case rests on interest rates. If the authorities sold bills aggressively, and starved the market of long dated paper, short rates might edge up, and so support sterling; and gilt yields would come down, which would ease long-term industrial financing, through bonds and equities.

How much would rates move? Not at all, according to fashionable theory, since short rates are supposed to be a function of exchange rate expectations (despite the fact the Professor Charles Goodhart has shown that interest differentials are hopeless exchange rate predictors).

As for gilts, the market would not respond to lower sales, according to the efficient market hypothesis, since it would know that higher sales would follow later.

The fact is that under-funding was tried in America a quarter of a century ago, before we learned it couldn't work. It was known as Operation Twist (twisting the yield curve), and it did work. It would work again; the laws of supply and demand are more reliable than later elaborations.

But it is hard to say how much rates would move, and harder to say how much it would matter. The US is stuck in the doldrums, despite a 3 per cent discount rate (and a heavy devaluation).

What about the Prof Congdon case? This is based on the fact that under-funding would cause a large rise in M4, the main Congdon indicator which is growing much too slowly. Here there is no doubt about the effect: the rise in M4 is an arithmetic certainty. But would this prove anything - apart from Goodhart's Law, which states that when you fiddle the money numbers, they become meaningless? Remember that a decade ago we contrived a slump despite exploding money numbers. It is memories like this which no doubt inspired the present Treasury rule of full funding - a gilt or a savings certificate to cover every debt.

Under this rule, government borrowing has no effect on the money supply. It might be called Congdon's Benefit, since it ensures that broad money is, for a change, a reliable indicator of private bank credit. But this interesting statistic is unduly costly, to taxpayer, the banking system, and to the house-buyer.

The taxpayer suffers, as Mr Bootle points out, because if you believe, as the authorities say they do, that inflation and interest rates are falling, issuing long gilts at current yields is recklessly extravagant.

As for the banks, their balance sheets have been debauched by their own folly and earlier official over-funding, when the Bank of England bought all their best credits and sold gilts to pay for it.

Under-funding in present circumstances would be simple justice, and would enable the banks to rebuild a decent holding of government paper - if not the 70 per cent they held before Competition and Credit Control started two decades of monetary bungling.

The banks are now sober, and under-funding would help make them sound - perhaps the biggest long-term benefit to confidence. The saving on public expenditure would be worthwhile, and, painless. It's not a panacea, but it's the right thing to do.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Abbey Nat. Treas. Services	200	1995	3	5.375	101.775	CSFB	4.944
Matsushita Elec. Ind. (off)	1bn	2002	10	(c)	(c)	Lehman Brothers	7.347
BASF Europe NV	200	1999	7	7	101.55	Deutsche Bank	6.715
Com. Fed. De. Elect. (off)	100	1997	5	5	99.89	Citicorp Invest.	8.030
Petrobras (off)	140	1994	2	(h)	100	Chase Invest. Bk.	4.825
Thakmo Electron. (off)	200	1997	5	4.825	100	Lehman Brothers	4.825
R & I Bk. of W. Australia (off)	150	1994	2	(h)	100	Merrill Lynch Int.	8.285
Rep. of Turkey	200	1997	5	8.25	99.98	Morgan Stanley Int.	8.285
Telecom Argentina (off)	200	1997	5	8	99.00	J.P. Morgan Sec.	8.284
ECU's							
EBRD (off)	50	1998	4.25	8.875	99.90	Bk of Tokyo Cap. Mkts.	8.083
STERLING							
GEFCO	100	2008	15.583	9.25	101.35	BZW	8.083
VICFIN (off)	150	1998	7	8.825	100.775	UBS PHIL & Drew	8.471
Carlton Comms. (off)	64.25	2007	15	7.5	100	Goldman Sachs Int.	7.500
CANADIAN DOLLARS							
Z-Landerb. (Cayman Is.)	200	1996	3.5	8.625	101.0375	Salomon Bros.	8.280
Goldman Sachs Op. 1	150	1997	5	8.125	101.40	Goldman Sachs Int.	7.776
AUSTRALIAN DOLLARS							
R & I Bk. of W. Australia	100	1998	7	8.75	100.70	Hambros Bk.	8.515
YEN							
Sumitomo Metal (off)	10bn	1997	5	(b)	100.20	Daiwa Europe	-
Sekisui House Ltd.	30bn	1999	7.25	5.95	101.75	Yamaichi Int.	5.644
Mitsui Fudosan (off)	30bn	1997	5.83	(g)	101.17	Nikko Europe	-
Mitsui Fudosan Corp.	20bn	2002	10.33	6.05	101.75	Nomura Int.	5.820
LIRE							
European Inv. Bk.	500bn	2002	10	11.25	101.875	BCI	10.833
SWISS FRANCS							
ENAG (off)	100	2005	-	7.25	100.25	Credit Suisse	7.216
Nippon Flour Milling	100	1996	-	3.75	100	Daiwa Bank (Switz)	3.730
Bremer Landesbank	75	1998	-	7.25	101.375	Credit Suisse	6.945
DKB	50	1994	-	8	101	SBC	7.44
D-MARKS							
ERB (off)	1bn	1997	5	8	101.575	Deutsche Bank	7.536
Finance for Danish Ind.	150	1997	5	8.75	101.70	West LB	8.327

This announcement appears as a matter of record only

New Issue

July 1992



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The contract involves the fabrication and erection of about 2,000 tonnes of steelwork

In Leeds, Taylor Woodrow Construction Northern has been awarded two design and management contracts by the City of Leeds. The first, for a £10.5m, to increase secondary accommodation at two local schools as part of an education reorganisation programme.

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Holders of Floating Rate Subordinated Notes of the above issue are hereby notified that for the interest Period from 21st July, 1992 to 21st October, 1992 the following information is relevant:

1. Rate of Interest:	5.25% per annum
2. Coupon Amount payable on interest Payment Date:	US \$134.17 per US \$10,000 Nominal
3. Interest Payment Date:	21st October, 1992

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STEPHANIE COX-FREEMAN
071 873 4027

INVITATION FOR BIDS

Loan No	: 2602-TU
File	: DB.TGTÇY.5
Order No	: 106-SEPT-TM/9105
Date of Issuance	: 20.7.2992
Bid Submission Date	: 3.9.1992

1. The **TURKISH ELECTRICITY AUTHORITY**, hereinafter referred to as TEK, has applied for a loan from the International Bank for Reconstruction and Development hereinafter referred to as the **WORLD BANK** in various currencies equivalent to USD 140 million towards the cost of Power System Operating Assistance Loan (TU 2602 P50P) and intends to apply a portion of the proceeds of this loan to eligible payments under the Contract for which this Invitation for Bids is issued. Payment by the World Bank will be made only at the request of TEK and upon approval by the World Bank and will be subject in all respects to the terms and conditions of the loan agreement. No party other than TEK shall derive any rights from the loan agreement or have any claim to the loan proceeds.
2. The **TURKISH ELECTRICITY AUTHORITY** now invites sealed Bids from eligible Bidders for supply of 1 each 21/400 kv. 345 MVA stepup power transformer.
3. The Bidders are free to quote on single or several items of the bill of Goods, as well as the whole of them, items shall be evaluated separately. Those Bidders who offer to supply more than one item shall assure the validity of their delivery schedule in the case that they are awarded for several times.
4. Interested eligible Bidders may obtain further information from and inspect the Bidding Documents at the office of:
TURKISH ELECTRICITY AUTHORITY
General Management
Commercial Affairs Department
İnönü Bulvarı No: 27 Kat: 1
Bahçelievler Şon Durak
ANKARA/TURKEY
Telex: 43245 tek tr

5. A complete set of Bidding Documents may be purchased by any interested eligible Bidder on the submission of a written application to the above office and upon payment of a non-refundable fee of 300.-USD or 2.000.000 TRL at the following address:
TURKISH ELECTRICITY AUTHORITY
General Management
Department of Finance
İnönü Bulvarı No: 27 Kat:4
Bahçelievler Şon Durak
ANKARA/TURKEY

Those Bids submitted by the Bidders who did not purchase the Bidding Documents shall be rejected.

6. All bids must be accompanied by a bid security in an acceptable form of not less than 3% (three percent) of the bid price and must be delivered to the above office on or before 12.00 hours on 3.9.1992.
7. Bids will be opened in the presence of those Bidders representative who choose to attend at 14.00 hours on 3.9.1992 at the offices of:
TURKISH ELECTRICITY AUTHORITY
General Management
Procurement Commission
İnönü Bulvarı No: 27
Ground Floor Block A
Bahçelievler Şon Durak
ANKARA/TURKEY

FINANCIAL TIMES SURVEY

INTERNATIONAL CAPITAL MARKETS

Monday July 20 1992

Bank lending last year fell because of the economic slowdown and the prospect of new rules on capital adequacy. The vacuum has been partly filled by the bond markets, which grew dramatically during the 1980s. Richard Waters reports

Changes of emphasis

TWO FACTS stand out from the shifting patterns of international capital flows on the financial map: the crumbling of international bank credit, and the expansion of bond markets.

The fall-off in bank lending reached a critical stage last year. For the first time since records began, international bank lending actually contracted. Cross-border lending fell by 1 per cent, or \$102bn. This was all the more notable, given that it followed six years in which bank lending had grown by more than 10 per cent a year.

The reasons for retrenchment in the banking industry have been well-rehearsed. Banks around the world need to bolster their resources ahead of new rules on capital adequacy, developed by the Basle Committee of banking supervision, which come into force from the end of this year. That has involved concentrating on profits and cutting back lending undertaken at unrealistically tight margins during the 1980s.

At the same time, the worldwide economic slowdown and a near-collapse in property values in several major economies have hit bank balance sheets hard. The effect has been most marked in Japan, where falling share prices, a property

collapse and a slowing economy have combined to deliver a nasty shock to a banking industry which had grown bloated on cheap deposits.

By the end of 1991, Japanese banks accounted for 31 per cent of outstanding international bank loans, well down from the peak of 38 per cent in 1988.

In spite of this retrenchment, there are few signs of a credit crunch. Economic slowdown has so far stunted the demand for new credit. In its latest annual report, the Bank for International Settlements, the international bankers' club, blames high debt levels in the private sector for the retrenchment.

"In most countries the credit slowdown appears to have reflected more a decline in demand for borrowing than an inordinate reluctance of markets to grant credit," it concludes.

Small and medium-sized companies, whose access to credit has been cut off most sharply, may not agree with this relatively sanguine view of credit conditions.

Also, fears remain about the extent to which banks would be able and willing to finance any revival in the world economy.

Part of the vacuum left by

banks has been filled by the bond markets. The growth of the international bond market was one of the most notable financial phenomena of the 1980s, as private sector borrowers in particular moved outside the narrow constraints of their domestic capital markets in search of the cheapest possible borrowing.

By the end of the decade, companies had tapped the international bond market for the equivalent of more than a fifth of their total bond market borrowings.

The bond markets paused briefly after 1989, as banks seemingly strove to outdo each other in financing the dizzying rise in property markets and the leveraged buy-out craze in the US.

Now, though, bond market lending has returned to its sharp upward course: in 1991, new international bond financing (net of redemptions) jumped to \$171bn, up from \$122bn the year before. That pace has been sustained so far this year, with the rate at which new bonds are being issued slightly above that in the first part of 1991.

The debt overhang of the 1980s overshadows much of this activity.

The bond markets have been pressed into service to help refinance expiring bond issues, reckoned to amount to some \$190bn this year, with a further \$270bn due next year.

A quarter of this is accounted for by equity-linked issues, which provided a steady and cheap source of capital for Japanese companies while the good times lasted.

High long-term interest rates have helped to attract investors to the bond markets. US dollar bond rates have stayed high, despite successive reductions in shorter term interest rates to give a boost to the flagging economy, while European rates have been held at a high level by the Bundesbank's attempts to halt the escalation of Germany's money supply.

Those conditions look likely to remain constant for the foreseeable future.

Stock markets, meanwhile, have staged their own



side-show as international equity investment has picked up - though market conditions have deteriorated rapidly in recent weeks.

Little more than six months ago, international investors still believed that Japanese share prices had reached rock bottom.

Foreign money poured into the Tokyo stock market - around \$47bn in all in 1991. Other major stockmarkets also experienced a new wave of

foreign investment, reversing the trend of the previous year, when foreign participation had shrunk in all areas except the European Community.

As share prices have lifted, US companies have taken the opportunity to become net sellers of shares for the first time since 1983.

In the intervening years, stock repurchases and leveraged buy-outs had persistently eaten away at US companies' balance sheets, and

they were quick to come back to the stock market to try to repair some of the damage when the time was ripe.

Circumstances have now changed. In the first five months of this year international equity offerings reached \$11bn, higher than the same period in 1991, as a growing number of US companies added international tranches to their stock issues.

Latin American issuers also returned in greater numbers

both to the international equity and debt markets. But, led by US fund managers, investors have since become increasingly wary of current stock market valuations, and issuing volume has fallen off as a result.

The boom in international securities markets - and the continuing strong growth in allied derivatives markets - have made it a profitable period for many bankers and brokers.

However, two factors suggest that the future is likely to get considerably tougher. One is the over-capacity in the financial sector, which has persisted well beyond the boom years of the 1980s.

The other is the increasing attention of regulators, concerned to get better control of fast-moving international markets.

The excess capacity in some parts of the securities industry has been apparent for half a decade, since the deregulation of national markets cut off many intermediaries' traditional sources of profit. Japanese securities firms are under the severest pressure to retrench, having seen commissions on domestic deals - the fuel that has kept their massive corporate machines running - dry up. US securities houses, which until recently were enjoying one of their best-ever periods, also face a difficult time as equity issues fall off and uncertainty takes hold of the markets.

A consolidation in the securities industry could be hastened by new capital adequacy rules. Capital regulations have already helped to precipitate a retrenchment and mergers in the banking industry.

Securities regulators are still in the process of hammering out their own international framework, but their work looks set to produce tougher rules for many brokers, forcing many to think again about whether they should stay in the business.

London, an international centre which has made a virtue of its less arduous capital regime, could be one of

IN THIS SURVEY

Government bonds: chill wind follows the Danish EC referendum; companies' search for reliable debt finance; Japan's banks show restraint

Page 2

Wall Street: where the roaring 1980s still go on; swap arrangements that bridge the currency boundaries

Page 3

International equities: the rest of 1992 will be tougher; asset-backed debt, or securitisation, is still growing, but faces a number of difficulties

Page 4

the biggest losers. Regulators are also trying belatedly to get to grips with the lightly regulated (and little understood) derivatives markets.

The proliferation of new financial instruments and the sharp escalation in derivative trading (in many cases, overtaking trading in the underlying securities) have left the authorities groping for new ways of regulating financial markets.

They face at least three problems:

● Some financial instruments are understood only by a handful of people. That raises questions about the ability of financial institutions correctly to assess and manage their risks.

● It is difficult to assess: sometimes where risks lie. Many of the instruments created to shift risk from one institution to another have not been tested in a liquidation and netting arrangements for some markets (such as swaps) are open to question.

● Much of this new activity is happening in private, a custom-made financial products increasingly replace exchange-traded instruments.

These problems are well understood by regulators. What is not clear yet, though, is what they are going to do about it.

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INTERNATIONAL CAPITAL MARKETS 2

Gilts dulled by EC doubts, writes Tracy Corrigan

Chill from Denmark

EUROPEAN government bond markets started the year in bullish mood, after EC leaders reached agreement on European monetary union at Maastricht last December. But their enthusiasm was soon dampened by growing concerns about political risk.

The Danish vote against ratification of the Maastricht treaty in June came as a bolt from the blue, sending European bond markets into turmoil. While an uneasy calm has now returned, investors and traders are still reeling.

The uncertainty seems certain to linger over European bond markets at least until the French referendum on the issue on September 20. By this stage, the prospects for European monetary union should have been clarified.

But economic conditions for

most European markets are still broadly positive. "The European environment is fairly friendly to bond markets," argues Mr Kit Juckes, international economist at SG Warburg. Real interest rates are rising, fiscal policy is mostly under control, and inflation is not only falling, but falling at a

An uneasy calm has returned but investors still reel from the anti-Maastricht vote

surprisingly quick pace.

"The only thing holding European bond markets back is the question of the timing of interest rate cuts," argues Mr Juckes. "When they start to come, we will see bonds perform well."

In the meantime, the French referendum could well provide a potent injection of volatility. Only the German and Dutch bond markets are likely to be immune. If traders get a renewed attack of the jitters about European monetary union.

Consequently, Germany and Holland are likely to be the main beneficiaries of any new money invested in European markets ahead of the referendum.

Meanwhile, the repercussions of the Danish vote are still being felt. In early July, the Bank of Italy raised the discount rate by a full percentage point to 13 per cent, in an effort to stabilise the lira and fend off devaluation rumours, which had triggered heavy speculative selling of the currency.

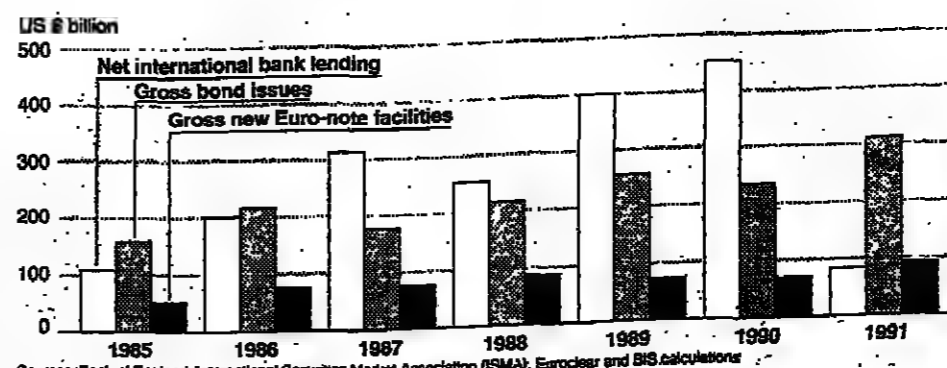
Investors are questioning the new Italian government's ability to control its budget deficit: there is no longer an assumption that targets set by Maastricht will be met.

Italian bonds are now trading at a yield spread of around 540 basis points above the German Bund market. That implies a devaluation of the lira amounting to 25 per cent in the next five years.

The Spanish market, which was also sold off dramatically after the Danish referendum, has recovered better than the Italian market. "In the longer term, the market still has excellent prospects," argues Mr Major. Investors still believe in Spain's convergence plan.

Still, he expects Spanish bonds to trade in a spread range of 350-380 basis points above the Bund curve, until

International financial markets



Source: Bank of England, International Securities Market Association (ISMA), Euroclear and BIS calculations

the French vote. Sterling, which had been trading in a narrow range, has also come under pressure, damaging sentiment in the gilt market. Until now, gilts have performed outstandingly, with a particularly sharp rally following the reelection of the Conservative government earlier this year. In the first six months of the year, according to the JP Morgan Government Bond Index, gilts offered returns of close to 8 per cent for sterling-based

investors, and of 9.8 per cent for dollar-based investors, outperforming all major markets. But the recent pressure on sterling has dimmed speculation of an early rate cut, and the gilts market's advance may also have stalled.

The tone of the French bond market has also been undermined by the prospect of further setbacks to the Maastricht treaty. The issue has become highly politicised in France, so that a vote for Maastricht is

being touted as a vote for President Mitterrand. Consequently, the markets are now viewing the matter as fraught with political as well as economic implications.

The September referendum is likely to remain a focus for investors throughout the generally quieter summer months. "If the French say 'no' there will be a major sell-off in the higher-yielders," said Mr David Shaw, head of fixed income at Legal General, the UK insurer.

"We got half of it with Denmark - we would get the other half with France."

Meanwhile, the continuing strength of the US Treasury markets continues to defy expectations. The failure of the US economy to climb out of recession caused a further cut in the discount rate by half a point to three per cent in early July. However, fund managers are becoming increasingly hungry for yield, given the low yields available on government debt. In addition, with short-term interest rates at historically low levels, investors are increasingly focusing on the long end of the very positive yield curve.

Despite the problems facing the European bond markets, they nevertheless outperformed other markets in the first half of the year, for both dollar and sterling-based investors. According to the JP Morgan index, European bond markets offered returns of nearly 3 per cent in sterling and 4.7 per cent in dollars, compared with 1.4 per cent in sterling and 3.3 per cent in dollars globally.

Companies widen their search, writes Simon London

Directors' dilemma

THE search for reliable sources of debt finance is likely to be one of the central concerns of companies and corporate financiers in the 1990s.

One reason is that the level of corporate borrowing has risen sharply over the past decade. But there are also concerns that banks - working to

Growth of corporate indebtedness was a strong feature of the US and UK in the 1980s

restore profitability and lending margins - will be less willing providers of debt finance over the next few years.

The growth of corporate indebtedness was a strong feature of the US and UK economies in the 1980s. In the US, company debt rose from 36 per cent of gross national product to 49 per cent of GNP over the decade, according to figures from the Bank for International Settlements. In the UK,

the proportion rose from 41 per cent to 52 per cent in the same period.

The overhang of corporate debt concerns policy makers. In January, for example, the US treasury proposed a phased removal of tax relief on debt service payments. The measure would, it hopes, stop companies over-borrowing next time around the economic cycle.

From companies' perspective, however, increased dependence on fixed-term debt finance has led to additional "funding risk" - since borrowings need to be refinanced periodically whatever the state of the markets. For example, this year and next many UK companies must refinance cheap syndicated bank credits arranged in 1987/1988.

So far, refinancing has taken place with barely a hitch. However, some high profile cases of corporate distress have convinced many companies that banks are unreliable sources of finance.

One response by companies has been to reduce the number

of banks from which they borrow. Most big syndicated loans have been refinanced by bilateral lending agreements or smaller, semi-syndicated credits.

For example, last year Grand Metropolitan arranged a \$2.5bn four-year loan to refinance an expiring three-year facility. The number of

Bankers believe only the top 50 UK companies have had access to public bond markets

banks involved in the deal was cut to 34 from more than 60.

At 37.5 basis points over Libor, the interest margin was higher than the 35 basis points over Libor Grandmet paid in 1988. However, the company believed it had more leverage over the lending banks by restricting the number of banks with which it was prepared to deal.

Other UK corporations look set to follow a similar route. This month Bank Rovers

McDonnell, the foods group, is replacing a \$250m multi-option facility with a smaller, simpler syndicated credit.

Companies are also keen to diversify sources of funding, raising cash from institutional investors in the bond market to supplement bank lines. By funding core borrowings in the bond market, bank credit lines are free to meet short-term financing requirements.

However, by no means all UK companies have access to the public bond markets. Since 1987, only 31 UK companies - some of them banks and other financial institutions - have made more than five Eurobond issues. Bankers estimated that only perhaps the top 50 UK companies have access to the public bond market.

Others companies must be more subtle. Investment bankers see great potential in raising institutional funding for "second tier" UK corporations. For example, last year four smaller brewery companies clubbed together to make a bond issue through an innova-

tive joint venture company. The structure has also been used by investment trust companies and could be applied to other industrial sectors.

Smaller UK companies have also placed bonds privately with institutional investors in the US. Even mid-sized companies such as Senior Engineering, which has a turnover of around £300m, have raised long-term debt finance from US institutions.

UK investment institutions generally remain more conservative. The sterling private placement market is far smaller. Kleinwort Benson, for example, estimates that it has raised £500m for UK companies from private placements over the last year. But investors tend to be other companies investing surplus liquidity, rather than investment

institutions. Hence most placements are short-term, rarely more than two years maturity.

UK company treasurers would like to see the development of a more open sterling bond market. This is unlikely, however, unless UK institutional investors switch substantial amounts of cash from the equity market and into fixed-income investment.

Sterling bonds account for just three per cent of the average UK pension fund portfolio, with the majority of this modest amount devoted to government securities. There are early signs of change, with some institutions starting to hedge fixed-interest investment higher. However, even if this trend continues it will take years for a deep, flexible sterling bond market to develop.



Tokyo money dealer - that choking feeling

Japan share price fall ends flow of funds, writes Emiko Terazono

Painful reassessment

THE SHARP fall in Japanese share prices has choked off the flow of cheap funds, generated by the bull market of the late 1980s.

The activities of Japanese financial institutions and corporations, which grew into leading lenders, investors and borrowers in the international capital markets, have declined sharply.

Japan's leading banks, the big lenders of the 1980s, have shifted their strategies from expanding internationally in search of overseas projects to a more conscientious stance.

The financial institutions have also been hit by the increase in bad loans and investments, especially in the international real estate markets.

"Japanese banks are assessing risks more carefully, setting higher margins, and curbing international activities by focusing lending to domestic companies," says Sakura Bank, a leading Japanese commercial bank.

The banks are feeling the effects of the capital adequacy standards set by the Bank for International Settlements, and many are cutting back on lending, weeding out unprofitable business, and favouring old-established blue chip Japanese companies over other customers.

Because banks count a portion of their stock portfolios as capital, the fall in portfolio values reduced their capital reserves. Losses on securities portfolios, which amounted to ¥228.7bn at the end of last March, were 11 times higher than the previous fiscal year.

Sakura says it has restructured its international corporate lending division so that it can comprehensively review a company's relationship with the bank, its profit prospects and the profitability for Sakura.

However, the bank says it has not consciously cut back on corporate lending. "The number of companies which we could lend to declined due to the setting of higher standards for lending," says a Sakura official.

He admits that in the financial boom of the late 1980s, lending habits at Japanese banks became "abnormal", and many banks were "dumping" loans. "Things are back to normal now."

The slowdown in the Japanese economy has depressed demand for funds and, together with the slump in the stock markets, has depressed the financial activity of Japanese companies in international capital markets. Japanese companies raised a total of ¥5,976bn in the fiscal year to March in equity-linked issues in domestic and overseas markets, down 88 per cent from two years ago.

However, demand for funds from companies facing repayments on equity-linked issues launched in the height of the

bull market is expected to rise later in the year. According to Daiwa Securities, Japanese companies will see a total of ¥6,960bn equity-linked debt mature in the year ending March 1993. The amount is expected to rise to ¥8,000bn in the year ending March 1994.

Many banks are cutting lending, weeding out unprofitable businesses and favouring the blue chip concerns

An alternative means of funding is through straight bonds.

More companies are dipping into the straight bond market, and last fiscal year, companies raised ¥8,303.6bn, which was 3.4 times more than in fiscal year 1989.

The government has indicated it is ready to ease limits on corporate bond issuance,

allowing a broader range of companies to raise funds. The dismantling of the barrier between the banking and securities industries will allow banks to enter the underwriting business, currently dominated by leading securities houses.

The commission-bank system, in which every issue has a bank that acts as an agent representing investors, is also set to be abolished. Corporate bonds with shorter maturities are expected to lead to a larger and more liquid corporate bond market.

Loans by life insurance companies are also an option for companies. The monthly outstanding loan balance has continued to grow sharply. According to the Bank of Japan, the amounts of loans extended by 27 life insurance companies at the end of February rose by 11.5 per cent to ¥51,290bn.

Life insurers are trying to

increase their lending activities, and some hope to allot over a quarter of new money this fiscal year to corporate loans.

Meanwhile, as investors, Japanese institutions have started to take a cautious stance toward international activity. The sharp falls in the stock market have eroded gains on portfolios, and new money for investment has declined due to falls in profits. Last year, Japanese investors bought a net \$3.6bn in equity investments, down 80 per cent from 1989, while a net \$88.2bn was purchased in bonds, a 27 per cent fall.

However, Mr Robert Feldman, economist at Salomon Brothers in Tokyo, points out that, despite heavy selling of US stocks and bonds by Japanese institutions, the treasury bond market and stock markets have rallied. "There's less impact than most foreigners worry about," he says.

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CREDIT FONCIER DE FRANCE 9 1/8 % 2004 EuroFF 2,5 bn	WORLD BANK 8 1/8 % 1996 EuroFF 1 bn	SNCF 9 % 2003 FF 2,8 bn
EDF 9,30 % 2001 FF 3 bn	VOLVO 9 1/2 % 1997 EuroFF 1 bn	YAMANOUCHI PHARMACEUTICALS 4 7/8 % 1995 Bonds with equity warrants EuroFF 1 bn
AEROSPATIALE 9 1/8 % 2002 EuroFF 1 bn	KFW 8 3/4 % 2002 EuroFF 2 bn	WORLD BANK 8 1/4 % 1997 ECU 150 m
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MANAGING FINANCIAL RISKS

INTERNATIONAL CAPITAL MARKETS 3

Patrick Harverson gauges the mood on Wall Street

The bankers keep their euphoria under control

FOR Wall Street, the past year and a half must have seemed at times like a happy re-run of the go-go 1980s.

Investment banks and securities houses have cashed in record earnings as stock and bond underwriting business has soared. The equity markets have roared ahead to new heights. Bonuses have rocketed in the wake of record fees and commissions.

The after-tax profits of New York Stock Exchange member firms reached a record \$3.8bn in 1991 on record revenues of \$61bn, compared with the pathetic \$106m loss incurred in 1990. So far this year, their earnings are keeping up a record pace.

Yet despite the huge amounts of money which have swelled about the US capital markets since early 1991, the investment bankers, securities salesmen and brokers of Wall Street have been remarkably subdued about their good fortune.

After the shocks of the post-1987 crash era, when payrolls, salaries, bonuses and corporate earnings tumbled amid overcapacity and soft markets,

the "masters of the universe" in lower Manhattan have learnt to treat the good times with a certain degree of respect and humility.

In fact, bonuses for all but a few top performers last year

Most of the credit for the US capital markets' recovery goes to the nation's central bank

did not match 1980s levels, a reflection of a tougher-minded, more performance-related approach to compensation among senior executives in the securities industry.

There was also less than normal growth in salaries;

especially at lower levels, and, except in a few areas (retail banking, notably), companies were in no rush to hire new blood. The relief on Wall Street that the red ink and job losses of the 1988-1990 period was over, however, was genuine enough.

Although the Federal Reserve has endured much criticism for its management of monetary policy, most of the credit for the turnaround in US capital markets goes to the nation's central bank.

It was the Fed's rush of interest rate cuts last year (a belated response to economic weakness) that created the conditions for a surge in capital raising by companies eager to refinance high-yielding

debt, to pay for much needed restructuring, or (in rarer cases) to pay for expansion.

Lower interest rates also revived individual investors' interest in stocks, by making alternative short-term assets,

The greatest growth in domestic markets was in corporate stock and bond issuance

such as bank certificates of deposit and money market funds, look less attractive compared with higher-yielding equities.

Consequently, investors handed over money to professional investment managers

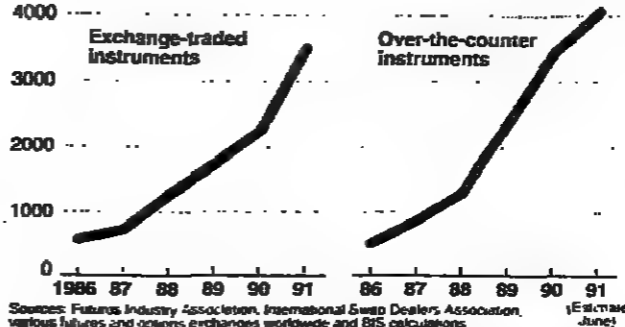
and stock funds in record amounts.

The greatest growth in domestic capital markets, however, was in corporate stock and bond issuance,

where volume last year jumped to a record \$586bn, up 88 per cent on 1990's total. The bulk of the total was issues of mortgage-backed securities (\$246bn), followed by corporate bonds (\$210bn, including junk debt), and common stock (\$54bn), of which almost half was initial public offerings (IPOs), or floatations.

Financial derivative markets

Notional principal amounts in US \$ billion (amounts outstanding at year-end)



Sources: Futures Industry Association, International Swap Dealers Association, various futures and options exchanges worldwide and BIS calculations.

per cent early this month. In the first six months of 1992, new stock and bonds sold in the US amounted to a record \$437bn; up 61 per cent on a year ago.

Mortgage-backed securities dominated again, while issues of investment-grade debt totalled \$136bn, evenly split over the first and second quarter. Junk debt remained popular, with almost \$19bn in high-yield bonds sold in the first half. Just over \$41bn in new stock was issued, of which almost half was in the form of

new wariness about IPOs among investors, whose appetite for stock may finally be waning in light of the poor performance of recent new issues.

According to IDD Information Services, only 29 of the 100 most recent IPOs were trading above their sale price as of June 24.

Despite this month's interest rate cut, it is unlikely that corporate capital-raising will maintain the heady pace of the first half of the year. Much of the financing of the past 18 months has been used to reduce debt and generally tidy up balance sheets. That trend has probably peaked, and companies are now likely to wait for a significant improvement in earnings before dipping into the capital markets again with such vigour.

That means the fortunes of the capital markets will be more closely tied to the domestic economy and driven less by interest rate.

So far this year, economic growth has averaged around 2 per cent, and economists are not expecting much more for the rest of 1992.

Global swaps have reached their peak, writes Tracy Corrigan

End of the rapid growth

THE GLOBAL swaps market, after a number of years of rapid expansion, is undergoing a period of adjustment.

Fuelled in the early years by new-issue driven business, the market is now available to a broader range of users for a number of purposes. The market is also facing increasing pressure from regulators, who have expressed some concern about the risks involved in the swaps business.

Since the International Swap Dealers Association, the industry's trade body, started tracking volume, the total amount of swaps outstanding has risen from \$900bn in 1987, to an estimated \$4,000bn by the end of 1991. Most analysts believe that this period of rapid growth is coming to an end. "The rate of growth will slow (in interest rate and cross-currency swaps). Most significant players are in the market now," explains Mr Malcolm Basing, the association's chairman, and global head of swaps at Swiss Bank Corporation.

The changing nature of global markets has forced important adjustments. At its inception, the swaps market took advantage of anomalies between markets to allow bor-

rowers to reduce their funding costs. For example, a UK company needing to raise funds in dollars might have to pay a premium to tap the US market, because its credit was unfamiliar to the relevant investor base. The swaps market allowed such a borrower to tap the most favourable market in terms of investor demand - in this case, the sterling bond

The swaps system allows a company to tap the most favourable overseas market in terms of investor demand and then to swap the proceeds into the required currency

market - and then to swap the proceeds into the required currency. Swaps, however, were always a smaller portion of the market than interest rate swaps. In earlier years, because retail investors, then numerous, were unsophisticated in assessing the value of bonds, borrowers could often issue fixed-rate bonds and swap the proceeds into floating-rate funds at a level substantially below the London interbank offered rate.

But the development of global markets has gradually ironed out these opportunities,

The last 10 years have been a period of substantial deregulation, breaking down the boundaries within and between countries, and consequently eradicating arbitrage opportunities between markets.

In addition, the growing sophistication of swap dealers themselves, means that any opportunities are swiftly arbitrated. "By its nature, arbi-

trage removes the pricing gap that was its *raison d'être*. I don't believe there will be a return to the sort of arbitrage opportunities available in the past," Mr Basing says.

However, tight swap spreads are also a function of current views on interest rates, and of supply and demand, so changes in market trends should prompt widening spreads.

But swap spreads - the differential between the yield on the government bond and on the comparable swap - have now tightened to historically

narrow levels, making it almost impossible for most borrowers to swap fixed-rate funds, except at margins often well above Libor.

While the proportion of new issue business has waned, other participants have entered the market, as a broader range of institutions have become familiar with swap market techniques.

Companies, which used to be concerned merely with finding cheaper ways of raising primary debt, are much more attuned these days to the ongoing management of their liabilities, and frequently use the swaps market to adjust their interest rate.

New techniques have been developed, allowing fund managers to swap assets. The developing equity swaps market allows a fund manager to change his exposure without buying or selling assets. For example, a fund manager can gain exposure to the US stock market without changing his physical portfolio by entering an agreement with a counterparty to pay, say, three-month Libor, and to receive the return on the S&P 1000 index.

Similar techniques using commodities now allow oil



New York Stock Exchange - so far this year, it has been a replay of the tear-away 1980s

companies - or transport companies which need to consume large amounts of oil - to reduce their exposure to the price changes.

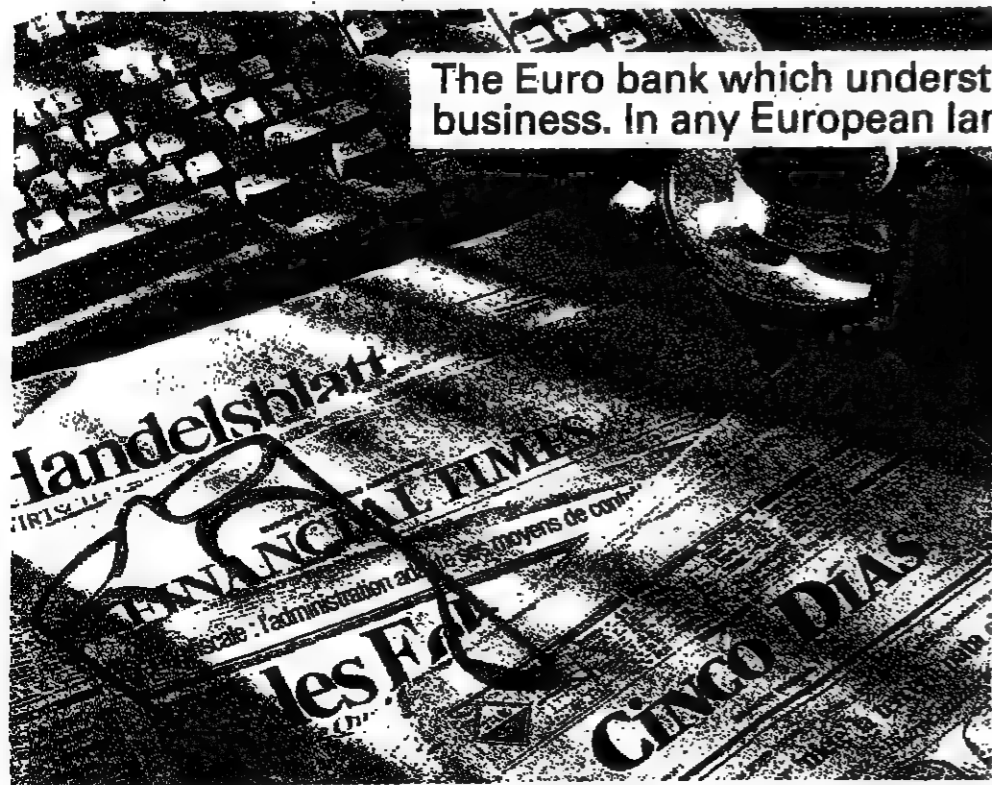
Meanwhile, the swaps market is also fighting a rearguard action against regulators. In the US, the Commodity and Futures Trading Commission's re-authorisation Bill, which is winding its way through Con-

gress, will, practitioners hope, provide legal clarification on the status of swaps. Swap market practitioners are keen to have the distinction between swaps and futures enshrined, as they fear attempts to force their business on to regulated off-market exchanges. Such a move in the US market is likely to drive business offshore.

Clarifying an earlier statement on the legislation, Mr Gerald Corrigan, chairman of the Federal Reserve Bank of New York, wrote recently to Congressman Dan Glickman: "My remarks were not intended to suggest that swaps are, or should be treated as, futures. It is exceedingly difficult for me to see how swaps could be traded on organised

exchanges, given that so many swaps are custom-tailored for specific purposes and uses."

However, he reiterated his view that "swaps and other off-balance sheet activities do need a closer degree of managerial and supervisory attention" and suggested "more systematic and comprehensive application of official capital standards to these activities".



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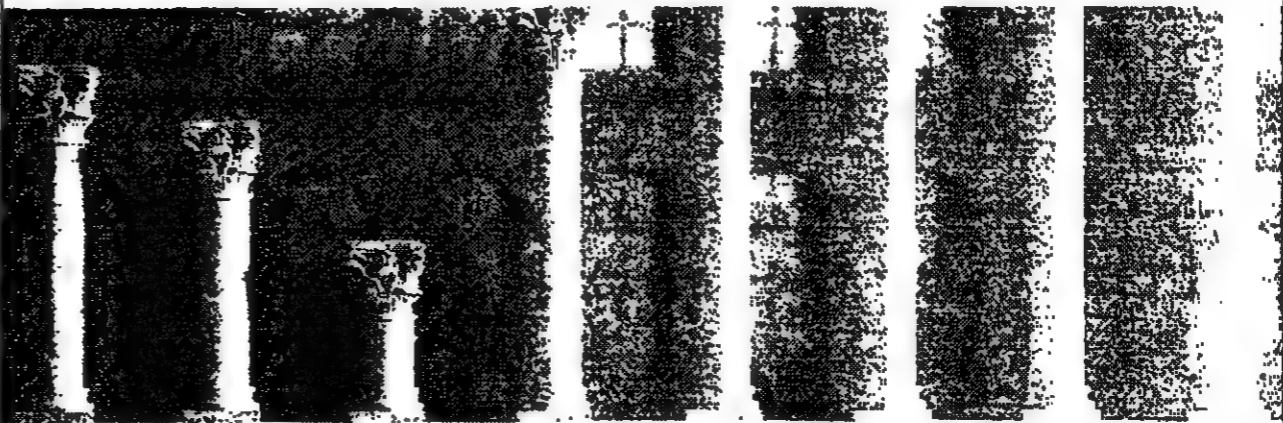
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INTERNATIONAL CAPITAL MARKETS 4

Sara Webb says prospects for attracting international equity investors are deteriorating

The rest of the year will be tougher

COMPANIES HAVE raised a record amount of money through international equity offerings in the first six months of this year, helped by the buoyant underlying tone of the world stock markets.

However, investment bankers are doubtful about the ability of companies to coax as much money from international equity investors in the second half of this year, given the recent fall in world stock markets.

Already, several equity offerings have been cancelled or postponed as companies await an improvement in market conditions.

The three main markets are the US, Europe and emerging countries led by Latin America

Companies raised a total of \$12.9bn from the international equity markets in the first half of 1992, using an array of initial public offerings, primary and secondary issues. This compares with \$8.3bn in the first half of 1991, \$7.4bn in the second half, according to data supplied by International Financing Review.

The success of these international offerings - which have ranged from US companies seeking to reduce their debt/equity (or gearing) ratios to formerly state-owned Latin American enterprises making their debut in the international capital markets - is attributable partly to the strong underlying tone seen in many of the world stock markets at the beginning of the year.

In terms of geographical breakdown, international investors have three main areas from which to choose: the US, Europe and the emerging markets, of which the Latin American countries have proved the most popular in the last year.

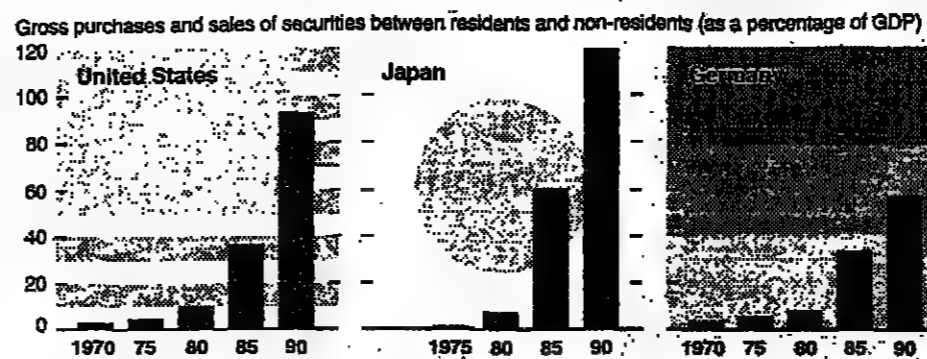
US companies have been a prolific source of new issues in the last six months, as corporate America has been keen to reduce high gearing levels and pay back some debt. Altogether, US companies raised \$5.08bn - or roughly the same as in the whole of 1991 - of

which \$1.18bn came from initial public offerings, \$2.73bn from primary issues and the remainder from secondary issues. Nearly half of the total was raised by a single company - General Motors - which drew \$2.14bn from investors in May in the biggest ever stock offering by a US company.

Western Europe has also provided investors with a steady stream of issues, raising \$2.19bn altogether. Provided the market conditions are favourable, Europe could prove the source of several international equity offerings in the remainder of this year, particularly as countries such as France and Sweden have embarked on extensive privatisation programmes.

Following the successful partial privatisation of Total, the French oil group, last month (when the state sold a 19 per cent stake for FF9.5bn), the government is expected to push ahead with the sale of

Cross-border transactions in bonds and equities



Source: National balance-of-payments data

shares in the state-controlled insurance companies. Meanwhile, in Sweden the central government has already started its disposal of state-controlled assets with the SKR1.85bn sale of shares in SAS, the steel group. However, this issue is small fry compared with the estimated SKR1.8bn which the sale of the state's stake in Procordia, the

food and pharmaceuticals group, is expected to raise this autumn.

The area which is becoming increasingly significant is that of the emerging markets. The last 12-18 months has seen a regular flow of issues from Latin American countries, particularly Mexico, which has become such a familiar feature on the international equities

landscape that some overseas investors now regard it as an "emerged" rather than an emerging market.

Several partial privatisations and initial public offerings in Mexico have attracted a strong response from international (particularly US) investors. Altogether, Latin American companies raised \$4.2bn in new issues, with Mexico accounting

for \$2.76bn of the total. This compares with \$2.05bn raised by Mexican companies in the first half of 1991, when Mexico was the only Latin American country to use the international equity markets.

As some of these markets become more mature, investors seek ever newer and more exotic emerging markets in the hope of reaping ever-larger rewards.

The most recent novelties have included China (where opportunities for foreign investors remain very limited with only a dozen or so listed companies offering shares in which foreigners may invest) and India (where the government has removed restrictions on Indian companies tapping the international capital markets).

"If you go back to the early 1980s, people used to giggle if you mentioned investing in Spain and Italy - now those are acceptable markets," says Mr Daniel Smaller, executive director of the emerging mar-

kets group at Lehman Brothers International where research is focusing on some of the newer, less developed markets.

Despite the upbeat start to 1992, few investment bankers are prepared to bet on a similarly successful second half. The recent bout of bearishness in some of the equity markets has hit a handful of new issues already.

GPA, the aircraft leasing group, had to cancel its \$800m global flotation last month due to lack of investor interest, while in the US, Dr Pepper/Seven-Up, the soft drink manufacturer, cancelled its \$600m

Several US flotations have hit last month because of weakness in the market

public offering earlier this month because of unfavourable market conditions.

Several US flotations have run into problems at the last minute because of weakness in the market.

While 1992 has witnessed a bumper first half for international equity offerings, the prospects for the second half remain rather uncertain.

Tracy Corrigan on the vogue for securitisation

An innovative way of raising money

THE global market for asset-backed, or securitised, debt has expanded further this year, but development is being hampered by regulatory roadblocks in nascent markets and by the effects of economic recession in the more mature markets.

The year has been marked by a number of innovative deals, such as the first securitisation of Latin American government debt, and GPA Group's ground-breaking \$600m issue backed by aircraft leases.

In securitisation, an issuer removes assets from its balance sheet and repackages them as bonds which are then sold to investors.

In the US, by far the world's largest market, the decline in

consumer credit has led to a decrease in activity in some areas of the asset-backed market. Total asset-backed issuance for the first half of 1992 reached \$23.13bn, 5 per cent below 1991, according to Cap-Mac's ABS MarketWatch, a

Demand for loans has dropped sharply and instalments credit is proportionately lower

newsletter published by one of the market's specialist insurers.

Demand for loans has dropped sharply, and consumer instalment credit has been declining as a percentage of income since late 1988.

Meanwhile, better access to equity markets has allowed many banks to strengthen their balance sheets, so the drive to meet regulatory capital-to-assets ratios is no longer a key motivation for banks to shed assets.

However, the US market still has considerable growth potential. Securitisation of some assets, such as car and boat loans, is on the increase. As a percentage of total instalment debt, securitisation is growing steadily. Penetration of the credit card market is substantial and securitisation in the car loan sector represents less than 10 per cent of the total available, according to estimates by Standard & Poor's, the US rating agency.

The lack of supply has



Dealers in the City of London - warning signals

boosted demand, as the low interest rate environment in the US encouraged investors to buy securities offering yields above the US Treasury market. In June, Nissan Motor Acceptance Corporation, the Japanese car manufacturer's US financing arm, paid a yield spread only 40 basis points above the comparable US Treasury rate for a \$600m issue of bonds backed by car loans, a full 20 basis points below the previous record low spread.

The same week, MBNA, the US bank, set a record low yield spread of 55 basis points on a \$600m issue of credit card-backed bonds.

Analysts believe that when the economy begins to heat up, demand for loans will re-emerge, bringing bank liquidity under renewed pressure and fuelling bank demand for capital. At that point, securitisation will again become an attractive alternative source of funds for banks.

Meanwhile, the US mortgage-backed market has come through a potentially traumatic period in surprisingly good shape.

The \$1,000bn sector has experienced record volume so far this year, after lower interest rates prompted homeowners to prepay existing mortgages and take out new debt at lower rates, triggering early redemption of billions of dollars of mortgage-backed securities. Despite the negative impact of prepayment, demand for the surge of fresh paper has remained firm, with high levels of re-investment reported.

In addition, the market "has been a direct beneficiary of new capital requirements", said Mr Michael Waldman, head of mortgage research at Salomon Brothers, since mortgage-backed securities command a low risk weighting, increasing their attractiveness for US banks.

Under Basel capital adequacy guidelines, securities backed by the Federal National Mortgage Association (Fannie Mae) carry a 20 per cent risk weighting in the US.

In the UK, the most developed market outside the US, the depressed state of the housing market continues to cast a pall over the sterling mortgage-backed sector. Together

with the deteriorating credit quality of several UK composite insurers, which provide some credit enhancement, the housing slump has led to a number of downgradings in the £12bn market.

Also, the continued threat that bank investors may have to apply a 100 per cent risk weighting, when capital guidelines come into effect in 1993, has reduced the most important pool of investors in the UK.

Increasingly wary of credit quality, investors have been demanding higher yields and tailor-made structures. Although that has kept the market alive, "attention has been diverted away from the fundamentals of establishing a homogeneous product, considered both dependable and attractive by the investment community," according to Mr Mark Stadler, head of securitisation at Merrill Lynch in London.

Elsewhere in Europe, long-expected moves to create a more friendly environment for securitisation are on the way. France, which introduced its securitisation law in 1988, is set to broaden the types of assets which can be securitised, though credit card receivables are still not likely to be allowed due to fears of a credit card boom.

Spain also looks promising, after legislators passed a law allowing the creation of closed-end funds which will act as issuing vehicles; but tax treatment still has to be clarified. In Japan, where banks and other financial institutions short of capital would clearly benefit from being allowed to securitise assets, a long-awaited package of reforms has disappointed market participants.

Such restrictions are likely to limit the marketability of such debt in the domestic market, according to analysts. Also, a forbidding range of authorisation from various government departments is still required before companies can proceed, leading Moody's to conclude in a recent report that the easing of Japan's regulatory willingness to consider asset securitisation than approval to proceed.

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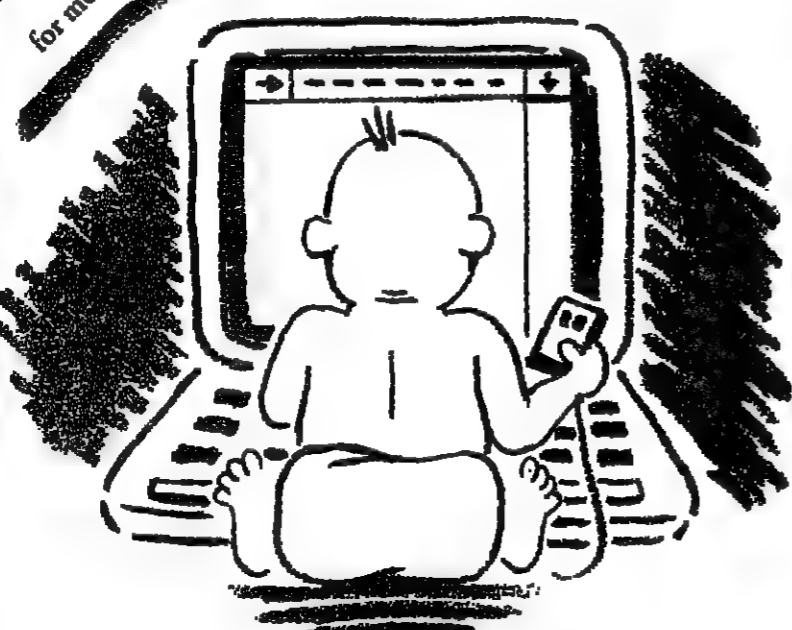
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Banco Central do Brasil

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Is the worst over?

FEW in the markets now believe that there will be a narrowing of the short-term interest rate differential between Germany and the US until the fourth quarter, writes James Milne.

UK clearing bank base lending rate 10 per cent from May 5, 1992

That was the fundamental lesson of last week. The discount rate rise, though symbolic, is a sign that German short term rates will stay high for the remainder of 1992. At the same time, indicators like last week's fall in June housing starts by 3.2 per cent make it even less likely that there will be a rise in US rates. The yawning rate differential makes the cost of holding dollars too great and may push the currency down to its all time low of DM1.430 soon.

The main debate now is whether the Bundesbank needs to tighten policy even further.

by raising the Lombard rate. Mr. Paul Chertkow of UBS believes the worst is over and that, by the time the Bundesbank next meets, it will have good figures on money supply and inflation. He also believes that weak indicators on German production and growth will force the Bundesbank to ease policy in the fourth quarter.

Mr. Neil MacKinnon of Yamaichi International thinks a Lombard rate rise is still possible. While the next set of inflation figures, for July, should bring the annualised rate down to 3.5 per cent, he thinks that the Bundesbank will continue to fret about the inflationary phenomena to come. These include the projected rise in VAT from 14 per cent to 15 per cent, increased petrol taxes, and what could be another difficult wage round.

The figure for June M3 money supply, which should appear on Friday, will be the first indication of who is winning this debate.

POUND SPOT - FORWARD AGAINST THE POUND

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

EXCHANGE CROSS RATES

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

EURO-CURRENCY INTEREST RATES

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

FT LONDON INTERBANK FIXING

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

MONEY RATES

Jul 17	Day's spread	One month	Three months	Six months	One year
US	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500	1.9400-1.9500
Canada	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Japan	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
France	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500	1.5400-1.5500
Germany	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Italy	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Spain	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500	1.6400-1.6500
Sweden	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500	1.4400-1.4500
Switzerland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Belgium	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Netherlands	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Denmark	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Portugal	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Greece	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Finland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
Ireland	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500
UK	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500	1.3400-1.3500

LONDON MONEY RATES

Jul 17	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	11 1/2	10 1/2	10 1/2	10 1/2	10 1/2	10 1/2
Interbank Bid	9 1/2	9 1/2	10 1/2	10 1/2	10 1/2	10 1/2
Sterling COs	-	-	10 1/2	10 1/2	10 1/2	10 1/2
Local Authority Disc.	9 1/2	9 1/2	10	10 1/2	10	9 1/2
Local Authority Bonds ..	10 1/2	10 1/2	-	-	-	-

INVESTMENT TRUSTS - Cont.					
NAME	INCORPORATED	SEC. 85(b)(1)	EST.	LIST	CITY
INVESTMENT TRUST OF AMERICA	1954				NEW YORK
INVESTMENT TRUST OF CALIFORNIA	1954				LOS ANGELES
INVESTMENT TRUST OF CHICAGO	1954				CHICAGO
INVESTMENT TRUST OF CONNECTICUT	1954				NEW HAVEN
INVESTMENT TRUST OF DELAWARE	1954				DELAWARE
INVESTMENT TRUST OF FLORIDA	1954				MIAMI
INVESTMENT TRUST OF GEORGIA	1954				ATLANTA
INVESTMENT TRUST OF ILLINOIS	1954				CHICAGO
INVESTMENT TRUST OF INDIANA	1954				INDIANAPOLIS
INVESTMENT TRUST OF IOWA	1954				DES MOINES
INVESTMENT TRUST OF KANSAS	1954				TOPEKA
INVESTMENT TRUST OF KENTUCKY	1954				LEXINGTON
INVESTMENT TRUST OF LOUISIANA	1954				NEW ORLEANS
INVESTMENT TRUST OF MAINE	1954				PORTLAND
INVESTMENT TRUST OF MARYLAND	1954				BALTIMORE
INVESTMENT TRUST OF MASSACHUSETTS	1954				BOSTON
INVESTMENT TRUST OF MICHIGAN	1954				LANSING
INVESTMENT TRUST OF MINNESOTA	1954				MINNEAPOLIS
INVESTMENT TRUST OF MISSISSIPPI	1954				JACKSON
INVESTMENT TRUST OF MISSOURI	1954				ST. LOUIS
INVESTMENT TRUST OF MONTANA	1954				BILLINGS
INVESTMENT TRUST OF NEBRASKA	1954				OMAHA
INVESTMENT TRUST OF NEVADA	1954				LAS VEGAS
INVESTMENT TRUST OF NEW HAMPSHIRE	1954				PORTSMOUTH
INVESTMENT TRUST OF NEW JERSEY	1954				NEWARK
INVESTMENT TRUST OF NEW MEXICO	1954				SAN ANTONIO
INVESTMENT TRUST OF NEW YORK	1954				NEW YORK
INVESTMENT TRUST OF NORTH CAROLINA	1954				RANDOLPH
INVESTMENT TRUST OF NORTH DAKOTA	1954				GRAND FORK
INVESTMENT TRUST OF OHIO	1954				CLEVELAND
INVESTMENT TRUST OF OKLAHOMA	1954				OKLAHOMA CITY
INVESTMENT TRUST OF OREGON	1954				PORTLAND
INVESTMENT TRUST OF PENNSYLVANIA	1954				PHILADELPHIA
INVESTMENT TRUST OF RHODE ISLAND	1954				PROVIDENCE
INVESTMENT TRUST OF SOUTH CAROLINA	1954				COLUMBIA
INVESTMENT TRUST OF SOUTH DAKOTA	1954				SIOUX FALLS
INVESTMENT TRUST OF TENNESSEE	1954				MEMPHIS
INVESTMENT TRUST OF TEXAS	1954				DALLAS
INVESTMENT TRUST OF UTAH	1954				SALT LAKE CITY
INVESTMENT TRUST OF VERMONT	1954				ST. ALBANS
INVESTMENT TRUST OF VIRGINIA	1954				CHARLOTTE
INVESTMENT TRUST OF WASHINGTON	1954				SEATTLE
INVESTMENT TRUST OF WEST VIRGINIA	1954				CHARLOTTE
INVESTMENT TRUST OF WISCONSIN	1954				MILWAUKEE
INVESTMENT TRUST OF WYOMING	1954				CHEYENNE

Netto-Produkt	WZG	Der	Grund
Netto-Produkt	WZG	Der	Grund

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Phon	spk	Dw	Dir	Directed	last	City
	chrg		cov	net	post	line
142	92	02	13	Aug	16	1732
481	67	0235c	19	Jan	20	25329
55	71	—	—	—	—	—3830
238	123	020c	35	Feb	Aug	23323
33	103	—	—	—	—	—3844
37	59	—	—	—	—	—14113223
282	64	0238c	17	Mar	27	14087
94	29	0130c	33	Jun	29	43353
212	-77	0208b	10	Dec	26	15
E12	—	0307b	12	Nov	20	2322
238	45	0250c	5	Feb	Aug	17
693	24	0237c	17	Mar	20	24270
710	-53	0255c	33	Mar	14	21
328	-56	—	—	—	—	—3023
E11	—	0250c	14	Mar	20	2030
32	111	0256c	9	Jul	Dec	1552338
70	—	0130c	50	Nov	20	54454
55	—	5.0	5.2	Aug	24	23272
2nd	50	2.8	—	Aug	Aug	1379291
38	2.9	—	—	—	—	9789459
E12	-52	0208c	23	Dec	Jan	181887
E13	35	0254c	21	Jan	Aug	1715386
E14	64	0237c	5	Jan	26	10189
E15	-125	—	—	—	—	—490383
E16	—	—	—	—	—	—232
578	146	0101b	26	Dec	Jan	2741028
—	—	043	—	—	—	—2711
—	—	1.8	1.8	—	—	—932167
70	—	032c	10	Mar	Oct	169
157	-01	043c	15	Nov	May	274396
861	34	0255c	16	Mar	26	261417
778	—	0732c	23	Aug	Oct	309
—	—	03c	09	Aug	Aug	173
779	2.9	051c	23	May	May	305277
77	14	—	—	—	—	—5491
710	10	052c	18	Feb	27	—
883	77	0911c	10	Jan	Jan	2012564
E16	-44	0258c	52	Jan	Jan	8.5785
710	-26	0712c	17	Jan	Jan	1853786
79	71	048c	11	Nov	Feb	271487
15	-32	—	—	—	—	—17384745
E18	81	0159c	9	Jan	Dec	1154454
53	-57	01c	—	—	—	—4824
E17	87	044c	18	May	Nov	212336
21c	—	—	—	—	—	—2393
51	—	—	—	—	—	—4825
51	103	—	—	—	—	—2380
48	43	—	—	—	—	—2384
213	14	—	—	—	—	—2383
18	-10	—	—	—	—	—2384
2	-11	—	—	—	—	—2444
18	—	—	—	—	—	—4848
61c	83	—	—	—	—	—5102722
261c	—	01c	0	Oct	5	102722
40	-22	02c	6.0	Dec	—	—4845
171c	8	—	—	—	—	—3318
15	-29.0	—	—	—	—	—

28	-9.1	-	-	-	-3330	
28	12.9	-	-	-	-3338	
114 1/2	0.0	0122	1.6	May Dec	112 3546	
8 1/2	-	-	-	-	-	
11	10.0	-	-	-	-2654	
15	-	026	-	11.90	-	
183	-1.4	-	-	-	-	
83	-0.3	-	-	-	-4857	
96	-0.4	0135	2.2	Jan Dec	24.4 3504	
36	-	046	2.7	Oct	-3954	
1	-	-	-	-	-4646	
57	-3.8	-	-	-	-3655	
171	-	-	-	-	-4850	
33	1.0	026	-	Oct	-1271	
13	-0.7	-	-	-	-3557	
200	-2.4	0046	1.9	Oct	23.9 3680	
11	18.0	-	-	-	-3462	
1	100.0	-	-	-	-	
19 1/2	-	-	-	-	-	
178	1.1	0265	0	Jan Dec	21.1 4585	
18	-7.1	-	-	-	-4081	
5	-	-	-	-	-	
195	-5.9	0246	-	1.4	May Dec	2.4 4470
4 1/2	-	-	-	-	-	
34	-	077 1/2	-	Oct	9.5 1714	
87 1/2	1.2	040	0	Aug	13.7 2726	
50	-	-	0	May Sep	18 3277	
180	-	0102	1.7	Mar	24.7 3844	
8	-	-	-	-	-5188	
27	-	-	-	-	-	
1 1/2	-10.0	-	-	-	-	
9 1/2	-5.5	-	-	-	-1363	
2	-	-	-	-	-2304	
16	10.3	-	-	-	-	
12	-4.0	-	-	-	-	
16	-10.0	-	-	-	-2216	
9 1/2	-4.3	-	-	-	-1416	
11	-16.5	-	-	-	-2427	
3 1/2	-	-	-	-	-	
4 1/4	-	-	-	-	6.85 2670	
7	-	-	-	-	-	
9 1/4	-	-	-	-	-3778	
54 1/2	2.5	0226	-	Dec Jan	8 11	
27 1/4	3.6	0226	-	Palau	14.5 2318	
24	3.0	-	-	-	-	
20	-	-	-	-	-2741	
5	-14.2	-	-	-	-1185	
27	-19.2	-	-	-	-1453	
23	-	-	-	-	-1483	
8	-	-	-	-	-	
4	-	-	-	-	-3586	
10	-	-	-	-	-2487	
54 1/2	-5.7	19.5	17	Dec Jan	23.3 2688	
1 1/4	-	-	-	-	-4163	
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NASDAQ NATIONAL MARKET

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FINANCIAL TIMES

SECRET

MONDAY INTERVIEW

Europe's timely champion

Nicolas Hayek, chairman of SMH watch company, talks to Ian Rodger

It is not easy these days to champion the cause of European manufacturing of consumer products. Philips' warning last month of serious problems in its consumer electronics division comes after years of bad news from European makers of motorcycles, cameras and cars, all adding to the view that Europeans can no longer compete in these product areas with low-cost competitors from the Far East.

Nicolas Hayek is in the rare position of being able to refute the Cassandra. Hayek, a Swiss consultant to European and US manufacturers such as Siemens, AEG Telefunken, Olivetti, Deere, and US Steel, since the early 1980s, masterminded the rescue of the Swiss watch industry in the 1980s. And he did it by taking on and beating the dominant Japanese competitors at their own game - attacking the low-margin, cost-sensitive mass market.

For Hayek, reviving the Swiss watch industry was simply a matter of proving what he had long believed. "No other area in the world is as rich in highly gifted people as western Europe. If we use our people well, we can always make high-quality, low-cost consumer products and make them better than people in Singapore, Hong Kong, South Korea or Japan."

On the other hand, he warns: "If we lose our know-how to make products, then we will lose our financial independence. And if you lose your financial independence, you lose every other kind of independence."

Although he grew up in Switzerland and has worked all his life there, Hayek, whose mother was Lebanese, father American, bears little resemblance to the reserved, correct businessman normally associated with the country.

He wears wrinkled, shapeless suits over ill-fitting shirts and flamboyant neckties, sports at least one watch on each wrist and puffs away at huge cigars or a pipe. Whereas many Swiss businessmen shrink from publicity, he delights in transmitting his often obscure ideas and startling opinions at the drop of a microphone.

In 1981, he was called in by the Swiss banks to rescue the two most important companies in the country's cherished but fast-declining watch industry, Asuag and SSIH. These two were important not only because of their size and because they made finished

watches that carried famous brand names such as Omega, Longines and Tissot, but also because they supplied large numbers of components and fully assembled watch mechanisms, or movements, for sale to other watchmakers in Switzerland and around the world.

Thus, their dilatory introduction of quartz and electronic technologies in the 1970s, which enabled the more nimble Japanese makers to make huge gains in world markets, especially of high-volume, low-priced models, undermined a large part of the Swiss industry. Swiss exports of watches and watch movements crashed from a peak of 91m units in 1974 to only 42m in 1983.

This pattern had been seen in other European consumer product industries, and the solution most frequently chosen was to retreat to up-market or specialised niches. Hayek, who had counselled many companies against that strategy, had his chance to prove they were wrong.

At SSIH and Asuag, which he later merged into a group called SMH, the main challenge was to overcome the disadvantage of Switzerland's high wages. Hayek did it by designing watches with a drastically reduced number of components. Also, he ordered that different models should, wherever possible, use common parts. And, with the banks' support, he invested heavily in assembly automation.

At first, most of this effort was concentrated on the Swatch, a line of cheap and cheerful watches introduced in the autumn of 1982 that would become one of the great marketing success stories of the 1980s. Swatches feature plastic straps and mountings in various colours. Models with new face designs, from the elegant to the outrageous, emerge every few months. At roughly £20 apiece, Swatches are accessible to all and seem to be acceptable to many.

SMH has sold more than 100m Swatches since their introduction, making it the best-selling watch line in history. Perhaps as important, many of the disciplines and innovations that went into its success could be transmitted to factories making the group's up-market brands, thereby improving margins on them and freeing up funds to bolster their marketing. Also, the high production volume of movements required for Swatches yielded economies of scale that have enabled SMH in the past



'We have to be very strong communicators'

two years to compete profitably in world markets for movements.

The result: Swiss watch and movement exports last year surpassed their 1974 peak level and SMH became one of Switzerland's most successful industrial companies with net profits of Sfr252m. This year, it is set to overtake Citizen of Japan to become the world's largest producer of watches and watch movements.

Hayek believes that the SMH experience is transferable to

PERSONAL FILE

1928 Born in Beirut.
1963 Formed Hayek Engineering, Zurich.
1981 Reorganised Asuag and SSIH, Swiss watchmakers. Launched Swatch.
1985 Merged Asuag and SSIH to form SMH.
1986 Chairman and chief executive of SMH.
1990 Announced project to develop environmentally friendly "Swatchmobile".
1991 SMH and Volkswagen establish joint venture to make Swatchmobile.
1992 Swatch watch sales surpass 100m.

other consumer products. He says most Japanese managers do not understand how to put what he calls "messages of emotion" in their products, which may have an image but nothing more, he claims.

"If you take Playboy magazine and see a pretty girl in it, that is an image. You may like it, but if you show it to your wife or to a man who likes men, they might react differently."

"But if that girl were here giving you a message, if the message was clear, differentiated, intelligent and not too long, she could give all of us the same message. This is what I call the message of the brand."

Hayek refuses to explain this

beguiling analogy further because, he says, he does not want to make things easier for his Japanese competitors.

Armed with confidence in his marketing skill, Hayek has perhaps inevitably begun to think of producing other consumer products himself. SMH has diversified into personal telephones, making a Swatchphone and a Swatch wristwatch pager. But his most audacious project to date is a joint venture with Volkswagen, the German car maker, to make an environmentally friendly car. The project was announced two years ago with considerable fanfare and an appeal for inventors to contribute ideas, but details of the car's design have been kept secret.

Hayek originally said he would unveil a prototype this year, but he has changed his mind, claiming that such a move would give away some of the ideas to competitors. He says he will reveal the real thing in 1996.

Is this hubris? Would he, wearing his consultant's hat, endorse a plan by a watch company to make a car? "If they had the people, yes. Making a car is not a difficult thing because the basic technology has not changed in 50 years."

His appeal in the media two years ago raised Hayek's profile in Switzerland and abroad. He makes no apology for devoting much of his time to interviews. The biggest challenge for management today, he says, is communicating. "Europe has had a fantastic boom in the past 50 years, but we have created very rigid structures in our societies. Bankers and businessmen no longer like to take risks. So we have to be very strong communicators and convince the people around us of the value of our ideas."

He has also embraced the environmental cause and last

March addressed the United Nations general assembly preparatory session for the Rio summit on the global environment.

"Each one of us has a responsibility. Because I am an entrepreneur, I have more resources and capability to change things than politicians who talk very much and do very little. That is why we started with the car two years ago. That is why we are going to sell watches without packaging."

Like most Swiss industrialists, he is eager to see Switzerland join the European Community. But whereas most say joining would be good for Switzerland, Hayek emphasises what Switzerland can do for the EC.

"I think Europe has to be constructed according to a Swiss model. That is the only way it can work and survive. With all these different cultures and languages, it would be a catastrophe to go the centralised way."

Having grown accustomed to US indifference to exchange

Wobbly dollar is no big deal

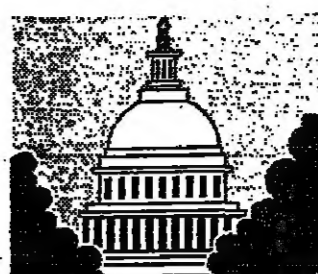
The gulf between US and European attitudes towards exchange rates is so broad as sometimes to seem unbridgeable. The dollar's recent weakness has received scant coverage in the American press - at best short stories on the business pages. The German discount rate increase, for example, not only failed to make the front pages of the New York Times or Washington Post, it was not even in their lengthy inside news summaries. If you failed to turn to the business sections, you missed it altogether.

The Democratic convention was admittedly monopolising the public's attention. But even on an ordinary day little would be made of a decision by the Bundesbank. Few Americans know or care what the dollar is worth in terms of other currencies. They certainly do not expect fluctuations on the foreign exchanges to have much impact on domestic economic policy. Americans would be stunned if the Federal Reserve - the central bank - were to announce that it had to raise interest rates in order to defend the dollar. On Main Street, the Fed's sole task is seen as bolstering the flagging economic recovery.

In US financial markets, similar attitudes prevail. On a tour of Wall Street last week, every analyst I consulted expressed concern that the domestic recovery might be losing momentum. All anticipated further dollar weakness but none saw this as a cause for great concern.

Even the Fed seems unusually relaxed: the most recent published minutes of its policy-making open market committee barely mentioned the dollar. Mr Alan Greenspan, the chairman, is likely to refer to exchange rate movements in his biannual Humphrey-Hawkins congressional testimony on Tuesday, but he can hardly deny that the Fed has so far focused almost exclusively on the needs of the domestic economy.

Having grown accustomed to US indifference to exchange



MICHAEL PROWSE on America

rates, it can be hard to grasp what a different world the UK inhabits. It seems incredible that minute movements of sterling within the EMS can send shock waves through British society. Two decades after the world's biggest economies opted for floating exchange rates, the sight of Mr John Major, the prime minister, solemnly ruling out devaluation seems oddly old-fashioned. It reminds me of the 1960s and Harold Wilson's valiant - but ultimately doomed - fight to avoid the humiliation of devaluation. In the US, few people regard the exchange rate as a symbol of national virility; the attitude, rather, is that if the dollar drifts lower against the D-Mark and yen, US exporters will gain a welcome edge in overseas markets.

What accounts for this striking difference in attitudes? The US psychology is different partly because Americans have been owners of the world's only viable international currency for half a century. The dollar, they point out, is still overwhelmingly the most popular unit of account and store of value in global transactions. The US can borrow apparently limitless sums without taking on a currency risk. In a real sense, therefore, American insouciance about the dollar's value in terms of lesser currencies is justified. At the same time, the biggest potential disadvantage of a depreciating currency - accelerating inflation - is rarely perceived as a serious risk.

The relaxed attitude towards the inflationary consequences of dollar depreciation is justified in two ways. In the first

place the US is a huge, continental economy in which trade still plays a relatively minor role. Exports and imports account for only 10.5 per cent and 10.9 per cent respectively of US gross domestic product, compared with ratios of closer to a third in the UK. This means that increases in the prices of imports have only a small impact on the overall price level. In addition the US has the world's most competitive labour market - reflecting both the weakness of unions and its willingness to permit immigration of low paid workers. The British assumption that depreciation will be automatically dissipated in higher pay awards does not apply: with most categories of workers experiencing steady falls in real wages, depreciation is more likely to lead to higher profits and investment.

Look at what has happened since 1985, say American economists. The dollar's plunge against the D-Mark and yen did not set off an inflationary spiral. On the contrary, exports surged, imports began to level off and the trade deficit narrowed sharply. The conclusion is that a little more of the same medicine will do no harm.

Americans and Europeans seem destined to continue misunderstanding each other. The US is quite comfortable with a floating exchange rate: it is hard to imagine circumstances in which US monetary policy would be tightened ahead of the November election. When the Fed does eventually tighten, it will be moving mainly in response to its assessment of domestic inflationary pressures. Europeans are likely fully to understand America's carefree attitude to the dollar only if they finally achieve economic and monetary union. Trade would then be a relatively minor component of the integrated European economy. And Europe's currency would be mighty on the world stage. In the fullness of time, London may be as blithely indifferent to exchange rates as the capitals of Nebraska or Arkansas.

A code for EC lobbying



A key committee of the European Parliament is considering a report containing proposals aimed at "laying down rules governing the representation of special interest groups at the European Parliament". In other words, the EC Parliament will consider regulating lobbying. Lobbying - which could be generally defined as the influencing of legislative, regulatory and political decision-making - is one of the ways in which the governed communicate with government and is very serious business in the EC. The report marks the beginning of an important debate within the EC, a debate whose outcome will determine no less than the integrity and effectiveness of the European Community's law-making process. While it technically addresses lobbying of the EC Parliament only, the EC Commission has also begun to consider this subject, and the debate in one body will undoubtedly be heard in the other.

The title of the report is a bit too modest, for while it refers only to "special interest groups" (one imagines truffle producers or vinegar bottlers), it actually applies as well to general interest groups such as associations of labour unions, manufacturers, employers and others. The primary author and "rapporteur" of the report

is Marc Galle, MEP, a courtly former literature professor whose gracious manner belies his canny wisdom. Mr Galle, a Belgian, was confronted with two main questions: should lobbyists be required to be "registered", and should there be a code of conduct applied to lobbyists? While it still faces many changes and amendments, the report answers both these basic questions in the affirmative. It does not actually propose a code, only that one be drawn up, with input from lobbyists.

At its worst, such a code of conduct could isolate decision makers from lobbyists or, at the other extreme, allow lobbyists to exert improper influence. At its best, the code could steer the EC away from the sort of seamy system that now exists in the US, where the giving of money is intertwined with the exertion of influence over legislation.

Drawing on some years of experience in both Washington and Brussels, I would offer the EC Parliament, and eventually the EC Commission, these suggestions for a lobbying code:

● Distinguish between obtaining information and lobbying; only the latter should be subject to registration, a code or any regulation whatsoever.

Information in the EC - for example, the status of a directive, the scheduling of an official meeting, the text of an official document - should either be public or confidential. If it is public, anyone who asks should be able to obtain it. It should not be given, as is now

often the case, to lobbyists or some lobbyists, based on who their friends are. If information is confidential, it should be made available to no one outside the EC offices working on the matter.

● Have a clear definition of what constitutes lobbying, thus requiring registration and code compliance.

Here again, the EC should avoid the US experience of having a law in the US it is the Federal Regulation of Lobbying Act of 1946 with so many uncertainties that it is virtually unenforceable and unenforced.

● Distinguish between being paid to lobby, by an employer or a client, and lobbying out of personal interest.

Here, the US experience is positively instructive, since there is a constitutional protection of the right to petition the government. Ordinary people in Europe should be encouraged to lobby the EC and should face no restrictions.

● Impose a clear separation between lobbying and the giving of money or anything else of value.

One could argue whether inviting an MEP or EC official to lunch or dinner is corrupting. As long as a particular lobbyist does not consistently entertain a particular official who has authority over a matter the lobbyist is working on, I do not think so. But the real question here has to do with lobbyists paying MEPs, their assistants or other EC officials, be it outright or under some form of employment or con-

sulting contract, or making other gifts that are of greater than nominal value.

● Have rules that will reveal generally which principal is lobbying which issue, but do not impose such stringent, bureaucratic or vague requirements as to constitute a barrier to proper lobbying. Lobbying should be a right, and the public should have a similar right to know generally who is lobbying on what.

Here, Mr Galle's report sounds the right note, explicitly seeking to ensure that "lobbying is transparent [and] that various lobbying groups are placed on an equal footing". Another US law, the Foreign Agents Registration Act of 1938, has the opposite problem from the 1946 Lobbying Act: it requires so much detail that it has often been criticised as being unduly burdensome.

● Do not discriminate between lobbyists from the EC versus those from without.

Doing so would be a form of protectionism and could invite damaging retaliation. To the extent such limitations exist outside the EC, the EC should use the present process as leverage to get those limitations removed.

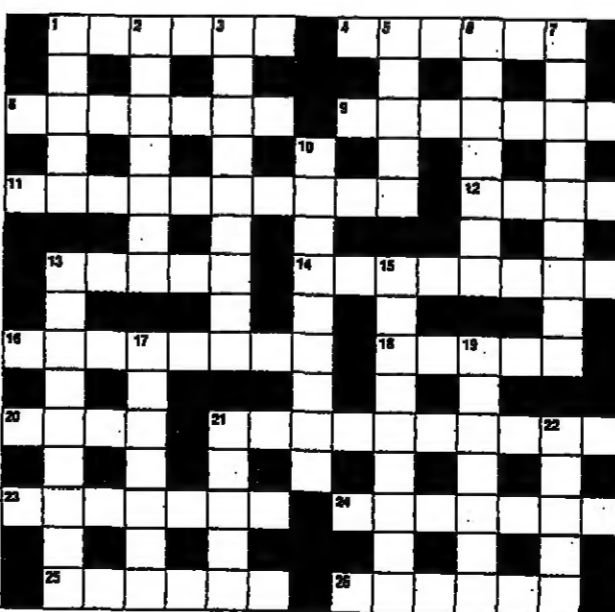
Raymond S Calamero

The author, partner in charge of the Brussels office of the law firm Winthrop, Stimson, Putnam & Roberts, was US deputy assistant attorney-general for legislative affairs, 1977-79.

JOTTER PAD

CROSSWORD

No. 7,903 Set by QUARK



- ACROSS
- Market stores redesigned to give very effective performance (8,9)
 - Charge with organisation of test run (7)
 - Side with the head? (7)
 - It's like Oxford to gather round for example with one (10)
 - This clue isn't directed to the lower levels (4)
 - Very musical attack is unfinished (5)
 - Foreign Office deters changes brought up (8)
 - Writings on defence (8)
 - Talk's value put at nothing! (6)
 - Call round (4)
 - Rock crusher? (5,5)
 - Sending out one in acting school with books (7)
 - Bowled over with gloves back to front (7)
 - Ancient city that's not quite the tops (6)
 - Stew thinned? Put in an order (6)
- DOWN
- One goes in car round tree (5)
 - Balance on French credit (7)
 - Midshipman's leaving, being rather complacent (4,5)
 - Story book's included in catalogue (5)
 - Time for the bowler to go on. Too late? (7)
 - It's simply not here (9)
 - Poorly planned - needs doing over again? (4-5)
 - One could be trying for the post (8)
 - The players sent proms crazy (9)
 - One golfer playing has cheery glow in winter (3,4)
 - Supporter of situation in brewing issue? (7)
 - Don't at Scotland's border produces a little burn (9)
 - One way of taking the paper (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 1.

Expanding financial horizons.

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OBSA International, Inc., a subsidiary of one of Mexico's leading securities firms, Operadora de Bolsa Serfin S.A. de C.V., expands its global reach with a new representative office in London.

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399 Park Avenue
New York, NY 10022

Luke J. Haran, Jr.
President
(212) 750-4220

OBSA International, Inc.
Representative Office
Moore House
119 London Wall
London EC4A 3DF

Javier Artigas
London Representative
(071) 920-9677

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Fax: 071-320 1018